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In July 1994, MD Håkan Johnsson led an MBO of Carlshamn Mejeri AB, a leading Swedish producer of edible fats and ice cream, from KF (the Swedish Co-operative), relying on CVC to raise a total financing of SEK 270 million.

Yeltsin recalls elder statesman of reform

By John Lloyd in Moscow

President Boris Yeltsin of Russia yesterday named Professor Yevgeny Yasin, the elder statesman of Russian reform, as the new economics minister.

As he did so, Mr Lewis Preston, president of the World Bank, declared after meeting most leading members of the administration: "I don't think there is any change in the reform effort." He was referring to the hectic and contradictory shifts in the cabinet over the past few days - which are set to continue.

Prof Yasin will work under Mr Anatoly Chubais, new first deputy prime minister for the economy and finance. Prof Yasin has in the past five years lost the talents of the young economists who formed the

first wave of reformers while keeping open his lines of communication with successive governments, industrialists and latterly Mr Yeltsin, to whom he was an adviser.

He takes one of the two posts vacated by Mr Alexander Shokhin, who resigned as deputy prime minister and economics minister last Friday in protest against lack of consultations over the naming of a new finance minister.

Though Prof Yasin is generally admired for his openness of mind to reformist ideas and his ability to steer clear of the backroom brawls, which characterise much of Russian political life, he has acquired that reputation by sticking to analysis and academic work and is not expected to emerge as a political heavyweight. However, his appointment at the

economics ministry, heading a generally reformist team, will support Mr Chubais in his efforts to open up the securities market and complete the second stage of privatisation.

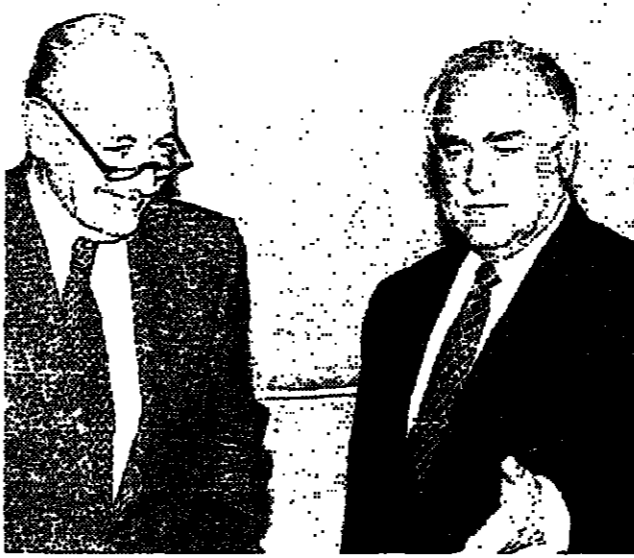
Mr Preston underscored his optimistic assessment by saying that Mr Vladimir Fanskiy, the new finance minister, told him he supported the tough budget strategy adopted by the cabinet - after expressing only lukewarm support immediately after his appointment.

The budget strategy, which calls for massive support from the international financial institutions to bring inflation down to 1 per cent a month by the end of next year, will soon be sent to the state Duma (lower house) for a difficult ratification process.

However, asked if he thought President Yeltsin fully sup-

ported the budget, Mr Preston replied: "The prime minister and the deputy premier (Mr Chubais) reaffirmed their strong support. I had no chance to visit with President Yeltsin and the issue did not come up."

Mr Yeltsin's moves in naming both conservative and reformist figures to his cabinet over the past two weeks are expected to continue - with question marks remaining over three ministers who are strongly opposed by an apparent majority in the Duma. These are General Pavel Grachev, the defence minister who is due to address the Duma on Friday, General Victor Verin, the interior minister, and Mr Andrei Kozhev, the foreign minister. The two generals are thought to be particularly vulnerable.



World Bank president Lewis Preston (left) is welcomed to talks in Moscow by Russian prime minister Victor Chernomyrdin.

Basque steel plant's retreat raises fears

Tom Burns reports on a new threat not linked to terrorism

Cheaper energy in France has prompted a leading steel company in Spain's Basque country to cross the frontier and invest Pta11.2bn (\$55m) in a new plant in Bayonne.

The decision by the family-owned Marcial Ucin group, which makes rods and long bars for the construction industry, adds a new dimension to Spanish fears about falling competitiveness. These concerns were fuelled earlier this year by the relocation plans of the loss-making Spanish subsidiaries of Gillette, the US consumer products multinational, and of Suzuki, the Japanese vehicle maker.

The move also has political overtones for the Basque government, led by the local nationalist party. Yesterday, it accused the Madrid authorities of forcing companies out of the area by failing to frame a coherent industrial policy.

The Bayonne plant, one of the largest single production investments for many years by a Spanish private company, will produce 900,000 tonnes of crude steel a year. This may prove troublesome to the Spanish government, which is planning to build a mini-mill of roughly similar capacity in the Basque port city of Bilbao, an hour's drive away.

"This is a very serious development because we are losing business instead of attracting it," said Professor Ignacio Marco de Deusto University, the Bilbao business school, and former chairman of the Basque Energy Board. "It is a very big investment by a leading local company that has always been closely identified with the Basque steel industry."

But Mr Enrique Portocarrero, an executive of the Circulo de Empresarios Vascos, a Basque employers' association, said the investment was more a psychological than an economic blow. "I doubt we are

going to see a flight of Basque industry to the other side of the Pyrenees," he said.

Marcial Ucin opted for Bayonne despite strong pressure from local authorities. The latter were willing to subsidise up to 30 per cent of the investment if the plant remained in the Spanish Basque province of Guipuzcoa, alongside the French border, where the company has its headquarters and where four of its seven Spanish plants are located.

The steel manufacturer said the attraction of Bayonne lay in the fact that electricity in France costs 20 per cent less than in Spain - mini-mills melt scrap metal with huge charges of electricity. French scrap metal was also cheaper and Bayonne had offered it a site near the harbour. It will begin building the plant in 1996 in a venture with the Japanese Mitsui group, which will provide 25 per cent of the money.

In order to soften the impact, however, Marcial Ucin said it would also invest Pta4bn in its Guipuzcoa plants to increase productivity and maintain the 850-strong labour force.

Spain's high electricity prices have been consistently criticised by manufacturers based in the frontier zones of the Basque country and Catalonia which are barred from hooking up directly to the French grid by the government's monopoly over the import of France's nuclear-based energy.

The competitive disadvantage became a serious issue in the recent Basque elections when the local nationalist party criticised Madrid.

Prof Marco says: "We are being made to compete with Europe and we are strapped by high inputs at every stage, from electricity tariffs to harbour fees, and from high interest rates to labour costs."

Russians seek imported goods at any price

By John Lloyd

The trend is particularly marked in Moscow and St Petersburg. In these two cities, imports make up a huge 70 per cent of consumers' purchases of food, according to a report by the Russian company, Business Analytica. In Moscow alone there are now some 6,500 trading companies, while individuals can enrich themselves by becoming "shuttles" - people who make a living bringing in consumer goods in their personal luggage from abroad.

The "shuttle" business is in fact a whole industry operating outside the framework of normal foreign trade turnover, the report says. The "shuttles" bring no profit to

the national budget and until recently were virtually beyond the scope of customs statistics. Their operations have no legal provisions whatsoever. The prices fixed by the "shuttles" are not liable to national taxes, enabling them to undercut the prices of the official importers.

Records of customs clearance of air travellers from Turkey and the United Arab Emirates, the report says, showed that 3 per cent of the passengers brought in as many goods as the remaining 97 per cent. The "shuttle" business involves bringing in up to 70 per cent of imported clothing, most cheap jewellery, about half of all leather articles, and up to 30

per cent of audio and video equipment.

The report says that consumer goods accounted for 70 per cent of total imports last year - estimated at \$26.9bn (£16.4bn), \$10bn down from 1992 - and remain at roughly the same level this year. This tendency will grow, the report says, because of the growth of real incomes, up 80 per cent over the past three years.

Imports of foreign cigarettes have all but wiped out the local cigarette industry, except for those plants which have concluded joint ventures with western manufacturers. Imports now account for 90 per cent of all cigarettes smoked. However,

increased customs duties imposed in July are curbing the sales growth of some consumer goods.

Food, for example, attracts duties of between 10-25 per cent of its customs value. These import duties were aimed at protecting the domestic market. However, according to the report, it is only when the price gap widens to 50 per cent between imported and domestically-produced foodstuffs that consumers begin switching heavily to the latter.

"Distribution of Imported Consumer Goods in Russia: Markets, Legislation and Infrastructure. Business Analytica, 22 Ulitsa Profsoyuznaya, Moscow 117858; Russia. 7065-128-1854

German parties near deal on coalition agenda

By Judy Dempsey in Bonn

Talks between the three German parties hoping to form the next government are due to end on Friday. Mr Peter Hintze, general secretary of Chancellor Helmut Kohl's governing Christian Democratic Union, said yesterday.

At the same time, the CDU, the Christian Social Union, its Bavarian sister party, and the Free Democrats, the junior partner in the coalition, expect to elect the Chancellor on

November 15. A cabinet is expected to be chosen within the next 10 days.

Unlike previous coalition negotiations which lasted several weeks, these talks, which have drawn up a rough policy agenda for the next parliament, have tended to highlight similarities rather than differences. The main differences, many of which were narrowed if not resolved yesterday, have focused on taxation.

One disruptive issue - increased powers for police to

introduce bugging in private homes - has been deleted from the agenda, while greater access for citizenship for the 6.8m foreigners in Germany will be discussed on Friday.

During yesterday's session, Mr Hintze said a controversial "solidarity" or income tax surcharge of 7.5 per cent would be decreased over time if the annual financial transfers to the five east German states were gradually reduced.

More than DM160bn (\$65.3bn) each year is allocated to east

Germany for, among other things, modernising the infrastructure and subsidising pensions and consumer spending. However, these transfers have increased the budget deficit which this year is expected to be DM68bn. As a means of reducing the deficit, the incoming coalition government will re-impose the solidarity tax which had been introduced after German unification in 1990 but was dropped in 1993. It is expected to raise DM28bn.

CDU and CSU officials

stressed, however, that any reduction in the annual financial transfers and the solidarity tax was linked to a continuing economic upswing, in eastern as well as west Germany.

All sides also agreed to raise the threshold at which income tax is payable, said Mr Erwin Huber, general secretary of the CSU. However, Mr Theo Waigel, the German finance minister, yesterday found himself at loggerheads with a commission of experts, which he appointed, about how to finance this.

After a year's work, the eight-man commission told Mr Waigel he would need around DM40bn in order to raise the threshold to DM13,000, up from DM5,616. Mr Waigel must introduce the changes by the beginning of 1996 to fulfil a ruling by the constitutional court. Germany's supreme court, but has said he will need only an extra DM15bn to do so. Mr Waigel also rejected the commission's suggestion that unemployment and other welfare benefits and pensions should be taxable.

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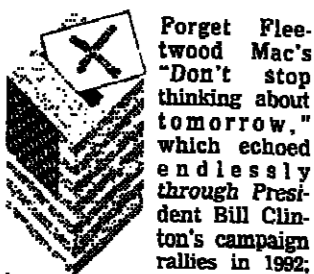
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NEWS: THE AMERICAS

US campaign unwholesome, hypocrisy rampant and invective childish Spiders, cookies and a lot of abuse

By George Graham in Washington



US MID-TERM ELECTIONS
November 8

Forget Fleecewood Mac's "Don't stop thinking about tomorrow," which echoed endlessly through President Bill Clinton's campaign rallies in 1992; the hit political song of 1994 is, more poignantly, "The itty-bitty spider."

Film of Senator Ted Kennedy singing along with the children's ditty provided one of the few high points in a campaign season that almost everyone agrees is one of the dirtiest in recent memory.

The image must have been so memorable Congressman Jim Nussle of Iowa filmed a campaign advertisement solely of him singing the Spider with his three children.

Acting with kids or animals carries its own risks. Mr Michael Huffington, who has spent as much as \$25m, mostly his own money, in a bid to unseat



California governor Wilson (right) and Arnold Schwarzenegger greet Republican supporters

Democratic Senator Dianne Feinstein in California, campaigned last month at the Bundy Scott Child Care Centre in Pasadena, reading "The little seed" and "The little boat" to the toddlers.

"They seemed to like him. I

don't know why," said Mr Anthony Henry, the centre's director. This endorsement may have two edges, but could be important in a campaign where one of the principal issues has been the immigration status of Mr Huffington's

nanny. In other races the central issues have sometimes been even stranger. In the race for Wyoming's only seat in the House of Representatives, Republican Barbara Cubin's campaign has been rocked by

"Cookiegate" - charges that she once passed around suggestively masculine-shaped biscuits at a meeting. The Casper Star-Tribune reports that Ms Cubin admits passing the cookies around, but says she did not bake them herself.

In most parts of the country, the campaign has been unwholesome, the hypocrisy rampant and the invective childish.

A spokesman for Congressman Jim Cooper, who is running for one of Tennessee's Senate seats against Republican lawyer Fred Thompson, calls his opponent "a Gucci-wearing, Lincoln-driving, Perrier-drinking, Grey Poupon-spreading, millionaire Washington special interest lobbyist."

But the prize for the funniest political advertisement in a losing cause goes to the campaign of former Congressman Jim Jontz to unseat Republican Senator Richard Lugar of Indiana. Mr Jontz drives around Indiana towns such as Lebanon, Peru and Moscow, in a search for the billions of dollars of foreign aid Mr Lugar has voted for.

Investors keep eye on Zedillo's peso policy

Damian Fraser on pressure for Mexico devaluation

When Mr Ernesto Zedillo, Mexico's next president, takes office on December 1, domestic and foreign investors alike will be watching for his administration's views on exchange rate policy.

Despite a depreciation of more than 10 per cent against the dollar this year, some economists worry that the peso is over-valued. Mexico's current account deficit is expected to widen to about \$28bn this year, or more than 7 per cent of gross domestic product. With capital flows insufficient to finance the deficit, reserves have fallen by about \$10bn since February, and short-term interest rates have risen to 14.1 per cent, more than 7 per cent in real terms.

Normally sanguine economists now conclude that for interest rates to come down and economic growth to accelerate from the modest 3 per cent expected for this year, a devaluation is necessary. "It is a medium and long-term problem rather than a short-term one; but eventually we are going to have a change in exchange rate policy," says Mr Jonathan Heath, head of the economic consultancy Macro Asesoría Económica.

Mr Zedillo publicly backed the renewal of the *pacto* between government, business and unions in late September, which permits a daily slide of the peso against the dollar equivalent to 4.3 per cent in a year. Anything more than that would require central bank intervention.

However, partly due to the rise in US bond yields and continued political uncertainty in Mexico, the *pacto* has failed to bolster confidence in the currency, or reduce interest rates. Yesterday the peso was trading at 3.43 to the dollar, just below the central bank limit of 3.45.

Mr Zedillo's close advisers insist - as they must - that there is no need to devalue. "Capital account inflows determine the deficit and not the other way round," says Mr Jaime Serra Puche, the trade minister who is one of the front-runners to become

finance minister under Mr Zedillo. "The day you stop having capital inflows then the rhythm of imports will slow down."

Such a relationship has not held this year. In the six months to June the current account deficit grew by 23.9 per cent to reach \$14.2bn; the surplus on the capital account fell by 21.6 per cent to \$12.45bn. While lower capital inflows will eventually reduce imports, many observers believe the best mechanism to induce the

market economic reforms, such as new privatisations, further opening of sectors such as energy to private capital, and deregulation.

Such steps or similar ones, along with an expected improvement in the political climate after Mr Zedillo takes office, may prove sufficient to calm the markets. But if investors remain nervous, Mr Zedillo faces three unpalatable choices: maintaining or raising current high interest rates to draw in short-term capital; increasing the current rate of maximum depreciation of the currency; or pushing for a one-off devaluation.

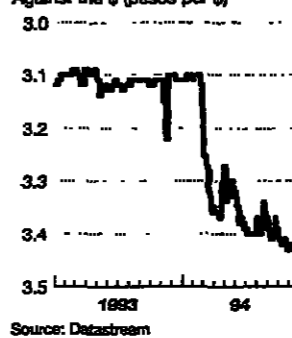
Keeping interest rates high would hurt economic growth and make it difficult for Mr Zedillo to reach his target next year of 4 per cent. It would put further pressure on Mexican companies that are struggling under high financing costs. And as Mr Serra argues, high interest rates are one of the causes of the trade deficit: Mexican companies, he says, are finding it difficult to compete with importers of intermediate and capital goods because they cannot offer attractive credit terms to customers.

Some members of the Salinas administration have argued in favour of increasing the daily depreciation of the exchange rate band, believing that such a move would improve competitiveness and take pressure off the currency. But with investors expecting a more rapid depreciation of the currency over time, they may demand higher interest rates to compensate for the greater exchange rate risk. "Widening the band would be the worst of all worlds," says Borja Ussia of Grupo Moneda in Mexico City.

Government officials insist that a one-off devaluation would be even more damaging. They argue that interest rates would rise after a devaluation, with investors concerned that inflation would rise as import prices increase. And many of Mexico's largest companies would be hit with huge losses on the foreign currency loans they have taken out in recent years.

Mexican peso

Against the \$ (pesos per \$)



Source: Datastream

adjustment is through a devaluation of the currency.

Using a different argument, Mr Serra predicts that import growth will fall as the rapid restructuring in Mexico's industrial sector slows. He says import growth in recent years has been unusually high because companies have replaced obsolete machinery with imported capital goods. Once this process is over, he says, new capital goods imports will complement rather than substitute for existing capital goods, leading to a narrowing between the rate of growth of imports and exports.

But for the moment industrial restructuring is continuing, indicating that the economy will be dependent on foreign capital for some time. With high US interest rates turning sentiment against most emerging markets, Mr Zedillo may seek to bolster confidence in the currency by announcing a series of pro-

Top two US shipping lines seek to reflag

By Nancy Dunne in Washington

The two biggest US commercial shipping lines have begun to request permission to reflag their ships in foreign countries to reduce the costs of their operations.

American Presidential Lines has asked the US Maritime Administration to put six new container ships under foreign flags, and is expected to seek reflagging of part of its 16-ship fleet now under the US flag.

Sea-Land Services yesterday was expected to notify the administration that it wants to reflag about half of its 25-ship fleet. It hopes to begin with five foreign-based ships. The reflagging is strongly opposed by maritime labour,

which joined with shipping interests last year in a congressional drive to get a new \$1bn maritime operating subsidy programme. Union officials say American Presidential Lines worked against the legislation and should not be rewarded with waivers which permit the reflagging.

The Clinton administration had hoped to create "a renaissance for the American shipbuilding industry" with government-backed loans, investment in new technology, streamlined regulations and higher exports.

Shipping lines agreed to hold off reflagging until Congress passed legislation on operating subsidies. Subsidies were approved twice in the House with bipartisan support but

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Argentine budget deal curbs Cavallo

By David Pilling in Buenos Aires

Mr Domingo Cavallo, Argentina's combative economy minister, may fail to win extra powers he sought to cut public expenditure following a pact by governing Peronist and opposition deputies.

The agreement, which should clear the path for congressional approval of the 1995 budget within 10 days, excludes from the budget package a controversial article that would have given Mr Cavallo additional powers to push through privatisations and cut state bureaucracy.

Mr Cavallo had hoped article 14 - which included authority to merge or eliminate state bodies and to cut the number

of public employees - would have saved the treasury about \$1bn next year. But many congressmen were reluctant to grant Mr Cavallo what they considered sweeping powers to bypass the legislative branch.

The issue has taken on particular relevance because of the emergence in the third quarter of a budget deficit, the first in more than two years. Mr Cavallo has sought to blame the deficit on growing pensions payments, but many commentators argue that fiscal laxity in other areas explains much of the deterioration.

The deficit has forced Mr Cavallo to ask Congress to amend the 1994 budget, granting extra expenditure of \$1.3bn to meet pensions and bonuses over the next two months.

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NEWS: INTERNATIONAL

Bank lending fall underlines fragility of Japan's recovery

By William Dawkins and Gerard Baker in Tokyo

Japan's official economic forecaster yesterday upgraded its outlook slightly, but the fragility of the recovery was underlined by a record fall in bank lending last month.

Bright economic spots are continuing to spread, said the Economic Planning Agency's monthly report for October. It

pointed as evidence to a "gradual upturn" in industrial production and "signs of a pick-up" in corporate profits. This contrasts with September, when the economy was seen heading for recovery, the first official recognition of the end of Japan's three-year economic downturn, the longest in post-war years.

Subtle changes in wording from one EPA report to the

next are closely watched as an influence on monetary policy. So the Bank of Japan can be expected to take the latest prognosis as further evidence that it has no domestic economic reason to cut official interest rates, despite the dollar's renewed fall last week to a record low against the yen.

The EPA's cautious optimism is the latest sign that Japan's economic cycle has

slowly turned, as ¥45,000bn (\$286bn) of government spending programmes over the past two years and an income tax cut last summer have started to feed through into corporate activity and private spending. On the corporate front, industrial production rose 1.6 per cent in the three months to September, the third quarterly rise in a row.

Meanwhile, the jobs market

has become slightly less weak, shown by a rise, for two months in a row, in the number of jobs available per 100 applicants, from 63 in August to 64 in September. The labour market is still tough, especially in manufacturing, which employed fewer people than services in September for the first time recorded, but the worst is over, said an EPA official.

Yet the fall in bank lending,

announced by Federation of Bankers' Associations yesterday, is equally a sign that consumption may be lagging and that banks' lending policies continue to get tighter.

The balance of lending by the 11 "city banks", the country's main retail banks, fell by a record 1.8 per cent in October from a year earlier, the tenth consecutive monthly fall, and the largest year-on-year decline

since the statistics were first collected in 1954. The fall was blamed on weak demand for personal housing loans, consumer credit and corporate capital investment funds.

The rapid growth in problem loans produced by the collapse of property and other asset prices in the last few years has at the same time forced banks to adopt a more cautious approach to domestic loans.

Over a quarter of all lending by top banks is secured on property. Land prices have kept falling in the main cities in the past year, as a result banks have reduced credit lines to many smaller customers. Lending by the three long-term credit banks fell 0.9 per cent from a year before, but loans from the seven smaller trust banks registered 4.5 per cent up on a year ago.

NTT battle with competitors hots up TV 'people-meters' attacked

By Michio Nakamoto in Tokyo

The battle between NTT, Japan's largest telecommunications company, and its smaller competitors over use of NTT's local network intensified yesterday as three long-distance telecom operators asked the authorities to step in. DDI, Japan Telecom and Telex Japan have asked the Ministry of Posts and Telecommunications to intervene in talks with NTT, stalled because of differences over rates set by NTT for use of its local network.

The companies, which have been negotiating with NTT for the past five years, claim this prevents them

from offering discounts to customers equivalent to the discounts NTT can offer for the same services. The three compete with NTT as long-distance carriers but depend on using NTT's local network.

They want to set up so-called virtual private networks (VPNs), allowing users to cut their communications bills substantially by using public networks as though they were internal networks. NTT has already started providing VPN services.

This is the second time in recent months that NTT has been accused of using its monopoly over the local network to impede the business of

its long-distance competitors.

The latest row is likely to support claims that NTT should be broken up into separate local and long-distance businesses to introduce greater competition into Japan's telecommunications market and ensure existing competition is given a fair chance. NTT faces a decision by the Japanese government next year on its future status. The three long-distance carriers have been asking NTT to allow them to set their own rates for VPN calls made on NTT's local network so that they can offer their own customers similar discounts to what NTT offers.

NTT counters it is happy to link the three carriers to its local network for VPN services but cannot allow them to set rates for use of its own network. "The local network is NTT's business," an NTT official said.

Japan's telecommunications policy, which separates long-distance and local operations, has not kept up with developments in the industry, such as the emergence of new services such as VPN.

To accommodate the emergence of these new services, policy should reflect the need for telecom operators to provide end-to-end services, the NTT official noted.

By Emiko Torazono in Tokyo

Japan's leading commercial networks yesterday hit at Nielsen, the Japanese arm of the US marketing group, over its launch this month of an automated system measuring television ratings.

The television networks, stakeholders in Video Research, a ratings research company which holds a virtual monopoly of the business, said Nielsen's decision to offer the ratings service was "regrettable".

Video Research measures ratings per household, rather than individual users as in the US and European countries. The data is supplemented by diaries kept by individual

viewers one week in a month.

The networks had previously warned that Nielsen's move would cause "confusion" in the television advertising business. They had not wanted Nielsen to start its service until all four parties involved in the ratings business (advertisers, advertising agencies, networks and ratings companies) had all agreed to the launch.

Nielsen's move to go ahead despite networks' strong opposition has frustrated network officials.

"We really weren't expecting this," said Mr Yasuharu Utsunomiya of Nippon Television Network. Corporate advertisers and foreign advertising agencies, which have been calling

for individual ratings for over a decade, have backed Nielsen's decision. They want more detailed data on the age and sex of viewers.

As a compromise, Nielsen and corporate advertisers had agreed to use data from the "people meter" system solely as "marketing data" and not as a basis for negotiating advertising rates with the networks. The company offered to provide the networks with the data free for the first five months. The networks describe the "people meter" system as imperfect and the data inaccurate. Nippon Television and Tokyo Broadcasting Service said they had rejected Nielsen's offer of free data.

French president skims over French role in Rwanda

Mitterrand defends Africa record

France's President François Mitterrand mounted a strong defence of his record in Africa yesterday but did not reply to harsh critics of France's policy before and after this year's Rwandan genocide. Reuter reports from Biarritz.

Addressing his last Franco-African summit, the 78-year-old leader said France remained Africa's firmest foreign friend and its biggest aid donor.

In a valedictory message ending his 50-year association with Africa, Mr Mitterrand appealed to whoever succeeds him as president next May to maintain France's strong ties with the world's "most fragile continent".

But he skimmed over France's much-criticised role in Rwanda where hardliners in the ousted Hutu-led government organised the genocide of up to 1m people between April and July. Under President Mitterrand, France gave sustained military and political support to the former regime.

The new Tutsi-led government accuses Paris of orchestrating efforts to destabilise it, citing the blocking of European aid and delays in bringing the culprits to international justice.

For the first time since 1975, Rwanda was not invited to attend the Franco-African summit. France said it preferred to see the situation "evolve" in Kigali, but many African delegates said they regretted the new government's absence.

Delegates expected Rwanda



President Mitterrand with Presidents Bongo of Gabon (right) and Mobutu of Zaire (centre)

to be at the centre of the summit's two plenary sessions before today's close. But France was promoting a debate on the creation of an African intervention force to respond quickly to the continent's frequent and bloody conflicts.

French media and African opposition parties accused Mr Mitterrand before the summit of betraying his early promises to help and the autocratic rule of African political "dinosaurs" personified by Zaire's Mobutu Sese Seko.

Mr Mobutu, who earned French gratitude for his support on Rwanda, was in Biarritz and back in limited favour with France despite Zaire's continued state of economic chaos and political instability.

Mandela seeks new mines policy

By Mark Suzman in Johannesburg

President Nelson Mandela yesterday called on South Africa's mining houses to expand their dialogue with the government and trade unions by establishing a permanent forum of big stakeholders to help shape a new policy framework for the industry.

Addressing the Chamber of Mines, an umbrella body representing mining industry interests, Mr Mandela said such a forum could improve productivity and help mines develop education and training initiatives for workers, while improving health and safety measures.

"The mining industry's impressive technological achievements still confront archaic social conditions and a workforce built on a low skills base and largely confined by illiteracy."

While praising the achievements of the industry as "truly remarkable," Mr Mandela avoided addressing the question of mineral ownership, merely saying he hoped that "under whatever form of ownership," mining would seek "to uplift the most disadvantaged of our society".

Since last year, a debate has been under way in Mr Mandela's African National Congress on whether the state should assume ownership of all mineral rights, to release under-used deposits for possible exploitation by foreign investors and small black-owned mines, or whether it should accept the private ownership system.

Talks between the ANC, the mines and the Department of Mineral and Energy Affairs have been continuing since the April general elections, but the government has yet to make a definitive policy statement on the issue. For the moment, Mr Mandela's address appears to indicate the status quo while encouraging further social responsibility programmes by the mines.

Mr Jurie Geldenhuys, outgoing president of the chamber, responded by urging "a synergistic and co-operative relationship" between government and mining, and praising the administration's non-interventionist approach to the private sector as a whole.

But Mr Geldenhuys criticised planned alterations to labour laws, such as more public holidays and a 40-hour maximum work week, as well as tighter environmental controls, charging they constituted "an anachronism" that could prove extremely costly to the industry.

South Korea eyes the North's attractions

John Burton on economic benefits of Seoul's easing of business links with Pyongyang

Seoul has opened the door to economic co-operation with North Korea, offering the possibility of long-term peaceful integration between the two bitter foes. But investment by South Korean companies is likely to be modest for the immediate future.

Investment guidelines announced by the Seoul government yesterday will guarantee a gradual expansion of economic ties.

South Korea's decision to ease trade and investment curbs follows the settlement of the international dispute over North Korea's nuclear programme last month. Seoul suspended economic co-operation with Pyongyang two years ago after North Korea threatened to withdraw from the international nuclear safeguards agreement.

Initial investments will be limited to light industry, but large-scale infrastructure and energy projects will be postponed until progress is achieved on such political issues as intra-Korean nuclear inspection.

South Korean businessmen and technicians will be allowed to travel to North Korea to conduct feasibility studies, establish branch offices and manage factories. Machinery can be shipped to the North to equip factories handling reprocessing orders from the South.

South Korean companies will also be permitted to employ cheap North Korean labour in third countries for construction and natural resources projects.

They will also be allowed to participate in investment projects through joint ventures with other countries, primarily China, or multinational programmes such as those sponsored by the UN Development Programme.

South Korea's President Kim Young-sam's decision to resume economic ties is meant to encourage the opening of North Korea and promote the gradual reunification of the divided peninsula, while acknowledging Pyongyang's new leadership under Mr Kim Jong-il.

But the South Korean investment guidelines are the result of a domestic political compromise on the issue. Full-scale economic co-operation would have angered conservatives who argue that industrial investments would only resuscitate North Korea as its economy appears headed for collapse.

But South Korea's powerful conglomerates, or *chaebol*, have been lobbying strongly for an easing of investment restrictions because they want



Presidents Kim Young-sam (left) and Kim Jong-il

to take advantage of North Korea's cheap labour force and the country's potential as a new market for consumer goods.

They have also expressed fears that US, European and Japanese companies may establish a foothold in North Korea before they do, if the restrictions are left in place.

The *chaebol* appear ready to live with the remaining economic restrictions since they are cautious about committing large amounts of investment to North Korea. Concerns range from the country's poor infrastructure to the absence of investment guarantees and a double taxation treaty.

South Korean companies have been scouting production sites in North Korea since 1989, with 13 *chaebol* having sought government approval to conduct negotiations with Pyongyang on investment projects, according to ministry of trade, industry and energy officials.

Proposed investments mainly concern the production of light industrial goods, including textiles, electronics, and food products. Several companies also want to develop tourist facilities near Mount Kumgang, one of Korea's most famous scenic areas. Samsung and Lucky-Goldstar are reprocessing textile products in the North.

Short term, Samsung wants to expand activity to include manufacture of electronics products. Lucky-Goldstar plans to produce daily consumer items, while Daewoo hopes to establish an electronics assembly complex in the port of Nampo, near Pyongyang.

The *chaebol* eventually want to win construction orders for infrastructure projects and operate gold, zinc and iron mines in North Korea. Hyundai has expressed interest in establishing a ship repair yard in Wonsan and producing railway carriages, while Lucky-Goldstar would build oil refining and petrochemical facilities.

These investment plans will be affected by Pyongyang's conditions governing foreign investment. North Korea has been seeking foreign investment to revive its troubled economy, which has contracted by an annual 5 per cent in the past four years. It has recently copied many of China's foreign investment laws.

But North Korea still has ambivalent attitudes to *chaebol* investment.

"The North Koreans fear they will become an economic colony of the *chaebol* and would prefer doing business with smaller South Korean companies," said one western business consultant who travels frequently to Pyongyang, "but they also realise the *chaebol* are the only ones possessing enough financial resources to undertake the big industrial projects that would benefit North Korea."

North Korea may try to place geographical restrictions on where the *chaebol* can operate to prevent the population from being exposed to foreign influences that could undermine support for the Pyongyang government. It has been trying to limit foreign investment to the country's north-eastern region, but potential foreign investors complain the area is too isolated and lacks transport links.

The confidence of the South Korean government and *chaebol* concerning North Korean investment will be strengthened if Seoul is allowed to build new and safe nuclear reactors to replace Pyongyang's current nuclear programme, scheduled to be dismantled under its recent nuclear deal with the US.

The project is considered a key test of North Korea's willingness to co-operate with Seoul and accept the presence of at least 1,000 South Korean workers who will help build the reactors - the first significant venture between the two countries.

UN to seek police for Rwanda

United Nations Secretary General Boutros Boutros Ghali said yesterday he would ask the Security Council to consider sending a police contingent or "rapid deployment force" to tighten security in Rwandan refugee camps. Reuter reports from Geneva.

But the UN chief, speaking after chairing a crisis meeting on Rwanda, conceded he might face donor-fatigue among states being asked to provide cash or troops to the new operation.

Mr Shauhray Khan, UN special envoy for Rwanda, said a series of options would be put to the Security Council. The largest force would be of up to 4,800 troops for at least a year to halt intimidation and violence in the camps by Hutu militiamen.

Mr Boutros Ghali will return to New York late tonight to relay several proposals from the Geneva talks, also attended by the UN high commissioners for refugees and human rights.

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NEWS: INTERNATIONAL

INTERNATIONAL NEWS DIGEST

S Africa land bill moves on

South Africa's national assembly yesterday passed a Restitution of Land Rights Bill in a first step to compensating millions of blacks dispossessed under apartheid. The bill, the first significant legislation aimed at redressing the wrongs of apartheid to go through parliament, provides for a Commission on the Restitution of Land Rights to help claimants bring their cases to a Land Claims Court. The legislation provides for hearing of any claims dating back to 1913. Most parties support the idea of land restitution for the 3.5m blacks forcibly removed from their lands, but most claims will be difficult to assess. Also, the government will find it hard to provide financial compensation for those whose claims are upheld. The bill still has to be passed by the Senate before it can be signed into law. *Mark Suzman, Johannesburg*

Thailand may ban visit

Thailand may cancel a visit next month by an Australian parliamentary delegation in response to comments by Mr Gareth Evans, Australian foreign minister, that Cambodia's Khmer Rouge rebels continued to receive unacceptable assistance from Thailand. On Sunday, Mr Evans said he would urge the Thai government to stop its businessmen and soldiers supplying Khmer Rouge guerrillas. He was not accusing senior levels of the Thai government of directly helping the Cambodian guerrillas, he added. *Reuter, Bangkok*

Australia 'adjustments' needed

Adjustments in Australia's policy settings would be needed to keep inflation at bay, Mr Ralph Willis, treasurer, acknowledged yesterday. His comments followed fierce debate over whether the government should adopt a tighter fiscal strategy to stop Australia lurching into another "boom and bust" cycle. To achieve a 2-3 per cent target of underlying inflation, "we have to adjust policy to curb the natural tendency of the economy to spiral. That means from time to time policy has to be adjusted." *Nikki Tait, Sydney*

Secret deal claims denied

Mr Brian Loton, Broken Hill Proprietary chairman, and Sir James Balderstone, former chairman, yesterday denied claims they knew of an alleged "secret arrangement" between Elders IXL, the group formerly controlled by Mr John Elliott, and companies associated with Mr Allan Hawkins, the now-jailed New Zealand businessman, relating to purchase of BHP shares. The alleged agreement is at the centre of a Melbourne criminal hearing following filing of theft and conspiracy charges against Mr Elliott and other Elders IXL executives last year. Elders is alleged to have used sham foreign exchange transactions to cover transfer of \$485.5m (\$20.2m) to Mr Hawkins, a payment supposedly related to purchase of BHP shares by him in the late 1980s. *Nikki Tait, Sydney*

Japan to review profits burden

Japan will review the tax burden on corporate profits as Japanese manufacturers shift their plants abroad to ride out the impact of the high yen, Mr Masayoshi Takemura, finance minister (left), said yesterday. "It's inevitable the percentage of firms moving abroad will increase. We will review the taxation on corporate profits to this effect," he told the tax reform committee of the lower house. Corporate taxes levied by Japanese regional governments were higher than in other leading industrial nations, while Japanese factories were shifting overseas relatively slowly. *Reuter, Tokyo*

Gas utilities face tough test

Japanese natural gas utilities will be exposed to greater competition next year when the first steps to deregulate the industry take effect, Mr Koshiro Godo, Japan Gas Association senior managing director, said. The amendment to the Gas Industry Law would ease rules on who can supply gas and at what price, he told a conference in Indonesia. *Reuter, Jakarta*

Why Manila acted on peso

The Philippines central bank is not trying to reverse the rise of the peso but is using "limited interventions" to smooth volatility, Mr Edgardo Zialcita, acting governor, said. The bank's intervention in the market yesterday was designed to "stop a sharper decline in the dollar value". The central bank bought \$40m as the peso surged 68 centavos to hit a 29-month high of Pesos 23.50 to the dollar before easing. *Reuter, Manila*

Indonesia murder trial

An Indonesian court has begun trying five policemen on charges of killing a student, after it jailed two others for masterminding the alleged murder. Antara News Agency said. The five accused face up to three years' jail if convicted of murdering Mr Jerri Mansafe. Amnesty International claimed this month the policemen took Mansafe from a hospital. "A few hours later the abductors took him to another hospital where he was pronounced dead." *Reuter, Jakarta*

Libya has devalued the dinar more than 15 per cent, bankers in Libya and Tunisia said yesterday. *Reuter, Tunis*

The Iranian parliament has voted to double fuel prices from next March despite warnings about the inflationary effect. Mr Gholamreza Aghazadeh, oil minister, had pleaded he needed the extra revenue to implement projects. *Reuter, Tehran*

Moscow wins Iraqi pledge over Kuwaiti sovereignty

Russia's mediation drive between Iraq and Kuwait moved into top gear yesterday, when Mr Tariq Aziz, visiting Iraqi deputy prime minister, handed over a letter dealing with Baghdad's recognition of its former Gulf War foe, Reuter reports from Moscow.

Tariq Aziz... handed President Boris Yeltsin a message from Iraqi President Saddam Hussein on Iraq's recognition of Kuwait's sovereignty and borders under United Nations Security Council Resolution 662, a foreign ministry statement said.

Foreign ministry officials would not comment on whether the letter had specified Iraq would now officially recognise Kuwait. But the statement said Mr Yeltsin had ordered Foreign Minister Andrei Kozyrev to fly to Baghdad "to take part in completing the appropriate constitutional procedures". *Itar-Tass news*

agency said he would leave for a three-day trip to Iraq today. Mr Kozyrev has been pushing for weeks for Iraq formally to recognise Kuwait, and for the international community to lift trade and oil sanctions against Moscow's old ally in response.

The talks with Mr Aziz follow Mr Kozyrev's announcement on October 13 that he had won an apparently unconditional promise from Mr Saddam to recognise Kuwait's sovereignty and borders. But the Security Council insisted this pledge had to be fully ratified in legal form before sanctions could be eased.

In return for full Iraqi recognition of Kuwait, Mr Kozyrev last month promised that Russia would support a lifting of the embargo on Iraqi oil exports after six months. Iraq has been under UN trade sanctions since shortly after it invaded Kuwait in

August 1990. The embargo includes a ban on crude oil exports, which were the country's main foreign revenue earner before the Gulf War.

Although food imports are allowed under the ban, Iraq has refused an offer to sell a limited amount of oil under UN supervision and use part of the proceeds to meet domestic humanitarian needs.

Yesterday's meeting in Moscow, from which reporters and photographers were kept at arm's length, continued moves by Moscow to recover lost status as a player in high-profile Gulf diplomacy.

Apart from raising the Kremlin's faded profile in the Middle East, a settlement with Iraq allowing it to resume its oil exports would clear the way for Baghdad to resume paying Moscow an estimated debt of between \$10bn and \$15bn for arms supplied in the 1970s and 1980s.

Israel moves to speed Palestinian self-rule

By Julian Ozanne in Jerusalem

Israel and the Palestine Liberation Organisation agreed a series of measures yesterday to speed the expansion of Palestinian self-rule, amid growing concerns about the political and economic crisis in the Gaza Strip.

After a meeting with Mr Yasser Arafat, chairman of the Palestine Liberation Organisation, Israeli prime minister Yitzhak Rabin said Israel had agreed to complete transfer of administrative power to Palestinians over West Bank health, welfare, taxation and tourism by the end of the month under an agreement known as early empowerment which has already transferred education to Palestinians.

Mr Rabin also said Israel would add talks on Israeli troop redeployment from the West Bank and the transfer of authority to continuing negotiations about Palestinian elections and had agreed to ease Israel's closure of Gaza and the West Bank by increasing the number of Palestinian workers allowed to cross into Israel by 10,000 to 23,000.

The package of measures completes the transfer after months of delay and growing mutual suspicion.

Israeli officials said Mr Rabin appeared to have made a strategic decision to implement the Israeli-PLO agreements despite opposition



Yasser Arafat making a point to Yitzhak Rabin yesterday as Israeli General Danny Rothchild tries to interject

from senior military officers.

They said Mr Rabin recognised that unless the peace process is implemented much faster Mr Arafat's fragile support base will collapse in the face of a resurgent Islamic opposition.

Mr Arafat said the meeting had

been very positive. "We hope that in this atmosphere we will follow up and implement accurately and honestly what we agreed upon."

However, even with Israel's commitment to accelerating the process officials said it was unlikely that the

Israeli army would leave Palestinian population centres before the middle of next year a full year behind schedule.

The pace of future negotiations, which Mr Rabin said would start within two weeks, will depend largely

on what instructions Mr Rabin gives to the four-person Israeli negotiating team. But observers said the inclusion of two foreign ministry officials should help to speed the talks given the clear enthusiasm of the foreign ministry for quicker implementation. "They will certainly be complex negotiations in which we, as Israelis, will have to ensure ourselves all the components of security. I cannot estimate how many months the talks will last," Mr Rabin said.

Mr Rabin also said early empowerment would depend on an agreement with donors to meet the additional funding gap the Palestinian authority will incur as it takes over responsibility in the West Bank. Israel, the PLO and donors are close to completing an accord under which Israel will assist the Palestinians with tax collection, tax training and the transfer of tax data in Arabic and donors will meet an estimated additional deficit of \$27m (£17m) for the next six months.

Donors have agreed to meet the financing gap but have warned they cannot continue funding Palestinian running costs indefinitely while Israel continues to collect millions of dollars of customs duties from the West Bank. The customs duties will only accrue to the Palestinian treasury after Israeli troop redeployment and Palestinian elections.

Biotechnology drugs can save 'millions of lives'

By Frances Williams in Geneva

Vaccines and other drugs derived from biotechnology have the potential to save millions of lives, especially in developing countries, and to combat diseases ranging from cholera to cancer and AIDS, according to scientists advising the World Health Organisation.

Sir Gustav Nossal of the Royal Melbourne Hospital, Australia, said yesterday that genetically engineered (recom-

binant) drugs were "purer and safer" than conventional vaccines, highly effective and could be manufactured in large quantities. Far from introducing additional regulations to control such drugs, the need was to make them as widely available as possible, he said.

Sir Gustav was speaking near the end of a three-day meeting, which he chaired, on the safety and ethics of using recombinant DNA vaccines and drugs to tackle disease. He

said the meeting, which brought together doctors, scientists, ethical experts and consumer and industry representatives, had found no innate disadvantages in the use of genetically-engineered products compared with conventional ones and many benefits.

Recombinant DNA products already in use include hepatitis B vaccine, insulin and erythropoietin, which helps patients dependent on artificial kid-

neys. Products in the pipeline include vaccines against cholera, typhoid, AIDS, certain cancers such as melanoma and birth control drugs producing temporary infertility in women and men.

A new whooping cough vaccine that would avoid the "nasty" reaction now shown by one in 2,000 children could be available "quite soon", Sir Gustav said. Clinical trials on a drug to combat genital herpes were well advanced.

The WHO pointed out that some of these products, such as erythropoietin, could not be made by conventional means while manufacture of insulin once required the slaughter of 30m pigs a year. Biotechnology can also help make drugs safer by avoiding infection risks.

The UN agency sees some of the biggest benefits coming in developing countries where up to 12m people die each year from infectious diseases. The hope is that genetically engi-

neered vaccines may overcome the limitations of existing vaccines.

The new drugs tend to be far more expensive than their conventional counterparts. But delivery costs, which account for 90 per cent of the cost of immunising a child, could be slashed by development of heat-stable vaccines which do not need expensive refrigeration and "one-shot" vaccines giving protection from several diseases in a single dose.



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NEWS: UK

United Biscuits adopts EU rule

Group creates Europe-wide works council

By Richard Donkin, Labour Staff

United Biscuits yesterday became the first British company to establish a works council of the type recommended by the European Union. The British government has opted out of the EU's directive on works councils.

UE's voluntary agreement with UK and other trade unions is the first of what are expected to be a number of such agreements involving UK multinational companies in spite of the government's stance on the issue.

Some 90 UK-based multinational companies - each with more than 1,000 employees in other EU states - will be required by the directive to set up works councils for their workers outside the UK. Even though they will not be required to include their British workforces, many are expected to do so.

The GMB union, one of the biggest in the UK, predicted that the agreement would be the first of several such deals with UK multinational companies. Mr David Williams, the GMB national secretary who led the negotiations with the company on behalf of UK unions, said: "United Biscuits should be congratulated as the

first UK-based transnational to voluntarily establish a Europe-wide works council." United Biscuits argued yesterday that the works council, which it is calling a European information and consultative council, made sound business sense.

The company said it would be "counter-productive" to omit British employees from the council structure.

The agreement to establish the works council was negotiated with nine UK unions in addition to unions representing United Biscuits' seven operations in other EU countries.

Some 30 employee representatives from all eight countries will meet annually just after the EU's annual results are published. Mr Mike Wilkinson, United Biscuits human resources director said: "We believe that a workforce that understands the objectives of business and the pressures on it is better able to respond appropriately to necessary operational change."

The agreement was welcomed by the Trades Union Congress, which said: "It shows that one of Britain's leading employers does not accept the rhetoric that says consultation on the European model is bad for business."

S Africa and Hong Kong may join lottery

By Raymond Snoddy

The UK's National Lottery, which is to be launched on November 19, could become international next year.

Mr Peter Davis, director-general of the Office of the National Lottery (Oflot), said yesterday he would consider allowing non-UK residents to take out a subscription to the lottery. The main possibilities are probably areas with long-

standing British connections such as South Africa, Hong Kong or Cyprus. Oflot has had requests from potential players in a number of countries including Australia.

When the lottery begins, players will be able to go to retail outlets and choose numbers for up to eight weeks ahead. From some time next month it will be possible to take out a six-month subscription to the lottery under which

the same number will be entered into the weekly £2m jackpot draw each week for six months once the subscriber's cheque has been cleared. At the moment only those with a UK address and a UK bank account will be accepted as subscribers.

Mr Davis says he is prepared to look at extending the subscription rules as long as he feels able to carry out his regulatory duty to look

after the interests of all players.

Camelot, the consortium which operates the National Lottery, said yesterday it would be interested in the possibility of international sales once the launch period was safely over.

Sales in countries of the European Union other than the UK are very unlikely. The European Court recently upheld the right of the UK to

prosecute German citizens for selling German lottery tickets in Britain. The court held that lotteries were a matter for national jurisdiction.

Moreover, in the US considerable limits are placed on lottery sales. Tickets cannot, for example, be posted across state boundaries although they can be sent by courier. UK National Lottery tickets will go on sale next Monday at £1 each.

Imports of coal 'could be reduced'

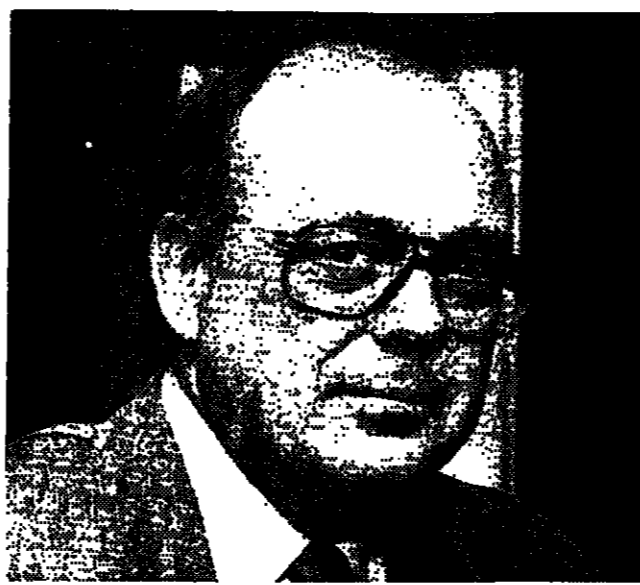
By Michael Smith

RJB Mining, the company selected by the government as preferred bidder for British Coal's English mines, has told miners that UK coal should be able to displace more than a third of the 17m tonnes of imports annually.

It did not, however, assume displacing any of the coal in making its bid.

Mr Richard Budge, RJB chief executive, says in an interview with Coal News, the British Coal newspaper for employees, that "our commercial calculations are based on there being no upturn in prices and no upturn in sales".

His comments will fuel the controversy surrounding RJB's bid which, at £900m, (£1,476m) was at least 50 per cent higher than the next highest offer.



Richard Budge: said no mine making a profit would be closed

Rival bidders believe there will be considerable contraction in the market. Some doubt whether RJB can make significant profits if it pays as much as £900m, and are puzzled that the company believes it can do so without displacing imports.

In the interview Mr Budge says UK coal should be able to

displace between 6m and 7m tonnes of the 17m imported into the UK every year.

The company is not planning closures in the short term. "We will not close any mine that is making a profit," he said.

Renationalisation ruled out, Page 10

Company fined for statistics breach

By Peter Norman, Economics Editor

Intrastat, the system for collecting trade statistics among European Union countries, has acquired teeth.

This week magistrates in Southend-on-Sea, Essex, fined Dams International, a furniture dealer based in Liverpool, a total of £11,550 including 2900 costs after it pleaded guilty to failing to supply Customs officers with information on goods acquired from and supplied to EU countries.

Dams, which has annual turnover of about £12m and exports of £1.5m to the EU, is the first UK company to be prosecuted for failing to supply statistics under the system introduced in January last year to provide trade figures in the European single market.

It is one of 31,000 businesses registered for value added tax with annual EU trade of more than £140,000 that are required

to supply data on so-called supplementary declarations.

These forms, which must be sent to Customs within 10 working days of the end of the month, oblige companies to fill in nine boxes on each type of goods traded. They provide 97.5 per cent of the statistics for Intrastat.

Customs and Excise is generally satisfied with the level of compliance of UK companies. Fewer than 200 cases of non-compliance are under consideration.

But this case is a sign that the agency is prepared to take recalcitrants to court when all other means of persuasion have failed.

Mr Paul Nelson, Dams' company secretary, said problems with the computer system caused the failure to comply with the Intrastat rules. He was having to work through 2,000 invoices a month to complete the forms and the job was too time-consuming.

Cancer vaccine is about to be tested

By Clive Cookson, Science Editor

A personalised cancer vaccine which uses genetic material cloned from the patient's own tumour cells is to begin a clinical trial this month.

The trial was approved yesterday by the UK Medicines Control Agency. It is the latest example of "gene therapy" - one of the fastest-growing medical research fields - and the first in which a vaccine is tailor-made for each individual.

Scientists from the Cancer Research Campaign and Medical Research Council, working at the MRC Protein Engineering Centre in Cambridge, devised the approach. It is aimed initially at B-cell lymphoma, a relatively rare cancer of the lymph nodes affecting about 2,500 people a year in Britain. It could later be extended to more common cancers.

B-cell lymphoma is especially suitable for treatment with a personal vaccine because the cancer cells have marker proteins - targets for attack by the body's immune system - which vary distinctly between individuals.

The experimental procedure involves removing the marker gene from the patient's lymphoma cells and splicing it into bacteria which make millions of copies of the gene as they multiply in a culture. The genes are cut out of the bacteria with special enzymes, purified and injected into the patient.

The idea, backed by promising results from animal experiments, is that the reintroduced genes will make relatively large amounts of the cancer marker. This should stimulate the patient's immune system to attack the cancer cells more effectively than before.

Ten patients at Addenbrooke's Hospital, Cambridge, and the Royal Bournemouth Hospital will take part in the initial trial. If they respond well the trial will be extended.

Eurotunnel chief criticises ferries

Sir Alastair Morton, co-chairman of the Channel tunnel operator Eurotunnel, last night accused the UK government of failing to impose the same high safety standards on ferry companies as it had on Eurotunnel, our Transport Correspondent writes.

Sir Alastair broke with the tradition that has prevented the ferries and the tunnel operator from commenting

publicly on each other's safety problems in a speech to the Association of Insurance and Risk Managers in Industry and Commerce.

"We object fiercely and with intensity when we observe cost given by the ferries as the reason for failing to remedy what appear to be inherently unsafe ship designs," he said.

"The government made us spend tens, even hundreds of millions of pounds from our

own capital - including the vast cost of transverse bulkheads between every wagon on our shuttles. And yet that government steps back from burdening the ferries with a few million in essential costs," he said.

The French and British governments had compelled Eurotunnel to prepare a 300-page "safety case," describing its safety features and procedures. As a result it

was 20 times safer than an equivalent stretch of railway, Sir Alastair said.

Other complex industries such as nuclear power generation, and aviation had also to operate by high safety standards. But the ferries had only been required to reach "a very modest and clearly inadequate level of partial safety" under international rules for safety at sea, he added.

Labour courts industrialists

Mr Tony Blair, leader of the opposition Labour party, yesterday promised business leaders that his party would retain the government's central trade-union reforms, our Political Correspondent writes. He said it would consult industrialists before introducing a minimum wage.

Speaking to senior executives at the Per Cent Club, Mr Blair said: "We are not in the business of sweeping away the

trade-union and labour-relations laws of the 1980s."

He said strike ballots, union elections and curbs on mass picketing were "here to stay", and ruled out any return to high marginal tax rates.

His comments coincided with a blunt warning by Mr Roy Hattersley, a former deputy leader of the party, that Labour must consider breaking its links with the trade union movement if it wants to win

the next general election.

Giving the George Orwell lecture in London, Mr Hattersley said victory was possible only if Labour became a party of ideas rather than vested interests. He said: "It is difficult to pursue truth wherever it may lead if two or three mighty unions, which dominate the policy debate, have decided which way to vote before the discussion begins."

What a day. Lousy weather. A terrible meeting. A traffic jam. And then, at last, something to smile about.

Welcome aboard.

6.23 p.m. local time. The new Lufthansa Airbus A340 taking off from New York



NEWS: UK

Minister is determined to limit state financing of public investment

More private funding sought

By Kevin Brown and Philip Coggan in Birmingham

Mr Kenneth Clarke, the chancellor of the Exchequer, yesterday unveiled plans to bring private finance into the heart of government by forcing its departments to seek outside contributions to funding for all capital spending.

In a clear bid to combat right-wing claims that the government has run out of steam, Mr Clarke told the conference of the Confederation of British Industry in Birmingham that private finance would be "the main source of growth" for

public investment projects. However, Mr Clarke's attempt to demonstrate a firm grip on public spending was undermined by the failure of a special 3½-hour cabinet meeting to agree to his plans for a cut of more than \$4bn (\$6.8bn) in next year's £263bn expenditure control total.

As the cabinet struggled with the details, Mr John Major, the prime minister, was forced into a highly unusual postponement of his weekly audience of the Queen. "He has been delayed," Buckingham Palace said. "As and when he is finished, he will come up

here." Mr Major's staff in Downing Street said ministers had held a "very productive" debate on the package, which calls for cuts in the transport, social security and higher education budgets.

Ministers said that a handful of outstanding details in thought to centre on cuts in the £8bn housing benefit budget - were expected to be agreed at a second cabinet meeting tomorrow.

Mr Clarke's attempt to pump fresh life into the flagging public finance initiative was given a mixed reception by industrialists.

Mr Clarke published a note setting out progress on the private finance initiative by 12 government departments, showing that £500m of private capital will have been employed by the end of 1994-95.

"Much more is on the way," he said. "There are to be privately financed prisons, the new Royal Armouries Museum in Leeds is under construction, there will be hundreds of millions of pounds of water and sewerage projects in Scotland and Northern Ireland."

The chancellor told the CBI: "This is just the tip of the iceberg."

Training levy on employers proposed

By Paul Cheeswright in Birmingham

A union chief told employers yesterday that industrial companies will have to be made to pay a training levy if the UK is to overcome the problems of having the least skilled workforce in Europe. Mr Bill Jordan, president of the Amalgamated Engineering and Electrical Union, was speaking at the annual conference of the Confederation of British Industry, the country's biggest employers' organisation.

He said the voluntary approach to training had failed. "If the CBI is serious about wanting a strategy to deliver skills for the next century, we should not be debating whether to have a training levy but tailoring the shape of one," Mr Jordan said.

He said budgets "improve skills" had been cut by 35 per cent in the past five years. It was "dangerously complacent" to praise Britain's best companies when the nation was lagging behind on productivity by up to 40 per cent compared with rivals elsewhere.

The CBI responded cautiously to the idea of a training levy. Mr Dominic Cadbury, chairman of Cadbury Schweppes and the CBI's education committee, said: "The CBI has not supported the concept in the past, but we will be asking our members to express their views and we will be consulting all members via the regional councils."

Some CBI delegates criticised Mr Jordan's argument. Mr John Phillips, chairman of Reliance-Barker-Davies, engineers, dismissed the idea of a levy as "simply an additional payroll tax" and "a pure addition to costs, a deterrent to employment".

Earlier, Mr David Simon, chief executive of BP, had warned that even well-trained employees faced uncertainty, and that jobs for life were unlikely. "I think most of us recognise that such a prospect is no longer wholly appropriate," he suggested.

UK NEWS DIGEST

Truce in war of babies' bottoms

Forget soap wars. The latest battle is for babies' bottoms, as Pampers disposable nappies slug it out with rival brand Huggies, and both sides complain about their opponent's dirty tactics. Procter & Gamble, which makes Pampers, complained to the Advertising Standards Authority, the advertising watchdog, about magazine advertisements from Huggies manufacturer, Kimberly-Clark. The advertisements claimed Huggies were "significantly thinner than the leading nappy, yet incredibly, they keep your baby just as dry". P&G, which said the "leading nappy" reference was clearly to their brand, Pampers, complained that the Kimberly-Clark claims were false. Kimberly-Clark replied by sending both in-house and external laboratory research to the ASA in support of its advertisements.

Kimberly-Clark submitted its own complaint to the ASA about P&G's advertising, objecting to the wording of magazine and direct-mail ads. These read: "The driest nappy ever for the driest, happiest babies". Again, both sides submitted research findings on performance of the nappies.

Both were sent away by the ASA to see if they could agree a "mutually acceptable testing procedure in order that such disputes could be resolved satisfactorily in future". In the meantime, both parties were told by the authority not to claim "anything more than an equal best ability to keep babies dry".

Calvin Klein Cosmetics was condemned by the ASA for the way it used model Kate Moss in a magazine advertisement for its fragrance, Obsession for Men. The authority said the model's naked pose, together with her "child-like form" and the brand name of the product, were "inappropriate and irresponsible".

Spending on adverts rises sharply

Spending on advertising in all the main media sectors increased during the second quarter of 1994 with particularly strong increases in spending on radio and posters, according to figures released today by the Advertising Association. The figures show the continued recovery of the advertising business from recession, said the association, which is a federation of advertising trade associations and professional bodies.

Advertisers spent, in current prices, a total of £1.2bn (\$1.96bn) on press advertising in the second quarter of this year compared with £1.1bn in the second quarter of 1993. Television advertising spending increased from £564m in the second quarter of 1993 to £624m in 1994; posters from £80m to £94m; and radio increased from £43m to £51m. Advertising

spending on colour supplements is the only area to show a decline - in constant prices, an almost 12 per cent drop.

Two men are jailed for murdering a stranger

Two 19-year-old men were sentenced to life imprisonment in London yesterday for murdering a complete stranger in what was described at the Central Criminal Court as "the ultimate dare". Judge Neil Denison, the Common Sergeant of London, told James Petroli and Richard Elsey: "You created a world in which you were both playing out your fantasies. It started with relatively harmless pranks and progressed to criminal offences and it developed into an obsession with killing and death."

"That led to the brutal and senseless slaughter of a complete stranger who just happened to be in the wrong place at the wrong time." The court heard that both men craved the lifestyle and image of the British army's elite Special Air Service. After "training missions" which included impersonating policemen and stealing from hotels, they decided to kill. They jumped into a passing car as it paused at a traffic sign. The driver, Egyptian born Mohamed el-Sayed, a 44-year-old chef, was killed in his car with a commando dagger.

Tighter rules urged for fish factory ships

Stricter lifeboat controls were urged yesterday for east European factory ships operating off the Shetland Islands to the north of Scotland. A woman died when the Estonian-registered Vagula struck some rocks on Monday night.

Mr Frank Duffin, district chief surveyor for the Marine Safety Agency, said all 87 fish factory ships now working off the Shetlands were to be sent a list of lifeboat recommendations including the use of all-round lighting, emergency flares and hand-held radios.

Whisky exemption

Scotch whisky producers have been offered a five-year exemption from new EU safety rules which they claim could alter the whole character and taste of the spirit maturing in the cask.

Proposed Euro-controls on the transport of flammable goods would make the maximum size consignment of hazardous liquids carried by road or rail 250 litres - a ruling which would affect a third of the 18m casks of whisky currently stored in warehouses in Scotland.

But the exemption was rejected as nonsense by the Scotch Whisky Association last night: "Five years is nothing in an industry which is 500 years old this year," said a spokesman.

Queen's piper chosen

Army warrant officer Gordon Webster has been appointed the ninth Queen's Piper since the post was created by Queen Victoria in 1843. He will succeed Pipe Major Brian MacRae, a former Gordon Highlander, who is retiring after 15 years. His job is to play the bagpipes for 20 minutes each morning at what-ever royal residence is occupied by the Queen.

Renationalisation of coal ruled out

By Michael Smith

The Labour party does not intend to renationalise the coal industry once it has been privatised, Mr Martin O'Neill, the opposition party's shadow energy minister, said at a meeting of the Coal Industry Society. His comments appeared to contradict previous party statements.

Last year's party conference backed a motion seeking to renationalise the industry, which is now being sold off. Mr Robin Cook, former shadow trade secretary, told parliament in March he would be "astounded if our plans to rescue the coal industry did not involve public ownership".

But party leaders have never been comfortable with the policy, particularly since the elec-

The government should demonstrate that it still believes in privatisation, Mr Norman Lamont said yesterday. Mr Lamont was dismissed from the job of chancellor of the Exchequer earlier this year.

"There is no point in being in government unless one has an agenda and wishes to achieve something," he wrote in the Daily Mail. "Perhaps we could build on the health service reforms and give more encouragement to private health insurance."

tion of Mr Tony Blair as leader. Mr O'Neill said Labour was not in the business of "making blanket promises to renationalise".

Mr O'Neill said that if any of the companies which are buy-

Privatisation: what has been sold so far?

1978 Stake in BP sold
1980 Stake in Ferranti and ICL sold
1981 Stake in British Aerospace, Cable & Wireless and British Sugar sold
1982 National Freight Corporation and Amersham International sold; majority stake in British sold
1983 Stake in Associated British Ports, Cable & Wireless and BP sold
1984 Sale of British Telecom begins; Sealink and rest of Associated British Ports sold
1985 Rest of British Aerospace, British Cable & Wireless
1986 British Gas and National Bus Company
1987 Royal Ordnance, Leyland Truck and Freight Rover sold; final stake in BP sold. Buyouts of Unipart and Leyland Bus
1988 Rover car group sold
1989 English and Welsh water companies for sale; Jaguar sold
1990 Regional electricity companies for sale
1991 Stake in National Power, and PowerGen on sale; second sale of British Telecommunications shares
1993 Rest of British Telecom sold; rail authority split into state-owned companies ready for privatisation
1994 Sale of 51% of Royal Mail and Paraforce (Post Office subsidiaries) abandoned

ing British Coal's mines got into difficulties, "government would have to look afresh at the question of ownership. We will intervene at any time we feel that safety is endangered," he said. Fleshing out the lead-

ership's thoughts on energy. Mr O'Neill said: "We will have to keep at arm's length those who advocate a particular kind of energy - nuclear or gas or coal - because they see it as a job-creation scheme."

Trains company attacks lease contracts

The companies which will run trains after British Rail is privatised are being forced to sign inflexible contracts with the companies set up to lease them rolling stock, says South West Trains, which runs services from London Waterloo to Southampton and Portsmouth.

our Transport Correspondent writes. The company said it was being asked to sign four and eight-year leases when it would like at least some of its fleet to be on one-year leases.

Mr Peter Field, managing director of South West Trains, told a conference on rail priva-

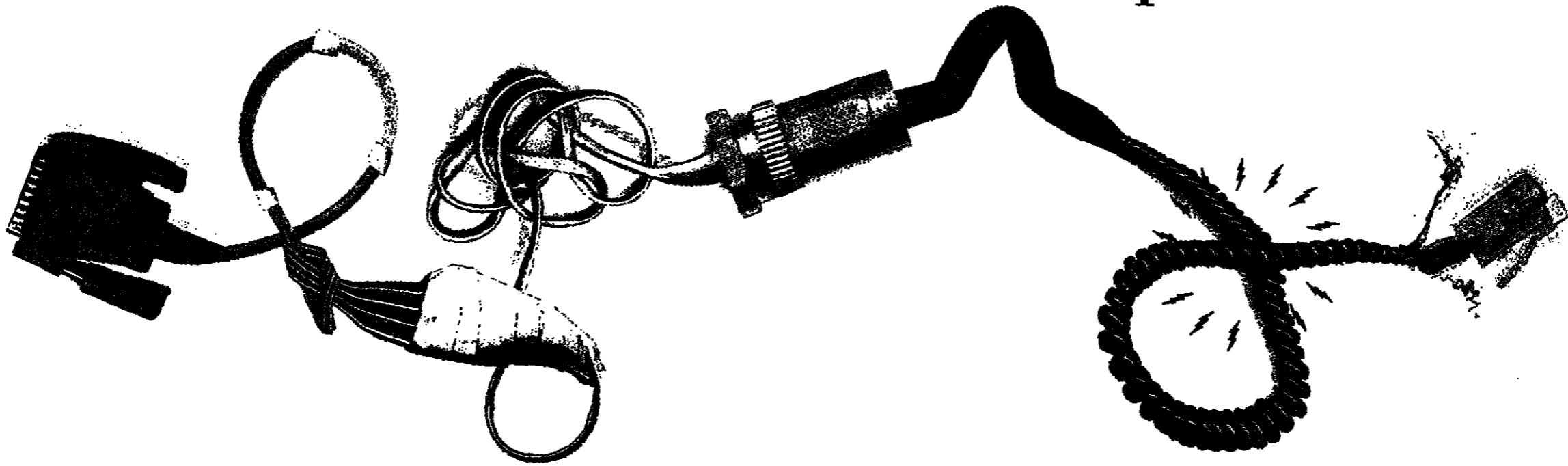
tisation: "If there is a recession, you need to be able to escape quickly from a long lease. In the last recession we had to withdraw 20 per cent of our rolling stock."

The long leases mean the rolling stock companies, which are early candidates for priva-

tisation, can forecast their revenues with a greater degree of certainty. But train operators bear most of the risk of a downturn.

The train operators say they are being "bounced" in negotiations with the three rolling-stock companies.

Some companies say they're joining forces to make international network communications simple.



University challenge at De Montfort

John Authers looks at issues forcing departments to think in terms of cost-efficiency and rapid expansion



Public services management



Mike Brown calls for academic aspirations to meet resource reality

De Montfort University in Leicester has a grand vision. Its aim is to be "internationally competitive" and "everywhere excellent". Bold words from an institution known as Leicester Polytechnic until two years ago.

But De Montfort is well on the way to making a reality of this vision. It is western Europe's fastest growing university, according to the World Bank, and attracts investment from both the UK government and the private sector for projects such as its new, massive and imaginatively designed engineering faculty building.

The university is also making a new role for itself in local communities. Kenneth Barker, vice-chancellor, believes that higher education "has been too busy chasing Nobel Prizes instead of giving industry and the community the service they really need".

This breezy attitude to the opportunities created by higher education expansion has manifested itself in a sheaf of plans to boost recruitment. De Montfort's marketing department has extended for a second year the most expensive university advertising campaign mounted in the UK.

Innovations to course structure are also planned to chisel away lingering perceptions of De Montfort as a former polytechnic. Mike Brown, an executive pro-vice-chancellor and one of the key managers in the university's expansion, has held discussions with independent schools about allowing pupils to start a De Montfort degree course in their last year at school.

The university's cause will also be helped by serving industry as directly as possible. A limited company, Leicester Expertise, now markets the university's know-how to companies, and has helped funnel consultancy fees to the university's technical specialists.

All this institutional change has been managed during rapid expansion. In 1987, 8,000 students were on Leicester Polytechnic's roll; in the current academic year that figure is nearer 18,000 while new campuses in Lincoln and Bedford will bring numbers up to 25,000 this year. Managing change on this scale is not easy.

The main elements in De Montfort's strategy, according to Brown, are an innovative executive structure modelled on private-sector companies, and an approach to cost control that makes individual departments directly responsible for both costs and revenue.

Beneath the board of governors, which includes Howard Davies, director-general of the Confederation of British Industry, is a vice-chancellor who doubles with the role of "chief executive", and then four executive pro-vice-chancellors, including Brown, whose jobs are chiefly managerial.

Below them come "cost centres", which include both support services, such as those for accommodation and catering, and academic cost centres. These include the university's "schools" - applied sciences, arts and humanities, built environment, business, combined studies, computing studies, design and manufacture, engineering and manufacturing, health and community studies, and law.

These cost centres are "the first point where academic aspirations meet resource reality", Brown says. "The philosophy was to have the academic and the resources units coinciding, headed by someone who was an eminent academic with the ability to manage."

Each school was required to set targets for the next five years, in the form of a series of performance indicators. Brown ensured they were aware of their costs and the attributed income they brought in each year - including government tuition fees, government and corporate research funding.

He also made it "quite clear" to the schools that if they could not justify their existence in financial terms they would be shut.

In fact, several schools have seen a sharp increase in the effective profits they have generated - in one case exceeding £1m. This was not the victory of commercial incentives over academic freedom: De Montfort's growth strategy allowed for the possibility that some departments might deserve a cross-subsidy, to help nurture the standing of the entire institution.

Brown's contribution was to establish a mechanism that made the cross-subsidies transparent, and forced academics to think in terms of cost-efficiency. Without this discipline, De Montfort's sharp expansion would almost certainly not have been possible.

For almost a decade, just in time (Jit), a manufacturing management philosophy and practice developed and very successfully applied by Toyota, has been enthusiastically embraced by many managers and academics in the west. Papers with titles such as "What is your excuse not to use just in time?" preached its virtues without reservation.

Now, critics are questioning its impact on profitability. An article in this newspaper on August 10 cited a study published by the University of Cambridge which concluded that a higher use of Jit was associated with lower operating profit margins for UK companies.

Should we infer that these techniques work in Japan but not in the UK (or other parts of Europe)? Or, is it unrealistic to expect profit margins to improve automatically by applying these Japanese practices?

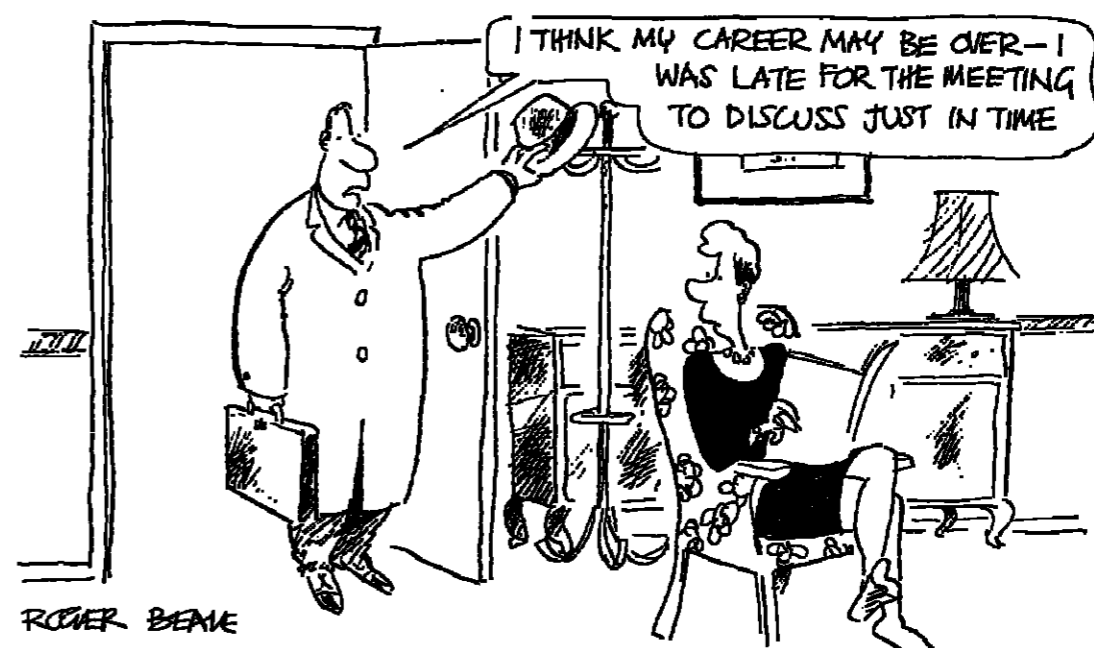
The Cambridge study has initiated a healthy debate about this management philosophy without, however, answering the above questions. To do this, it is critical to consider the degree of applicability of Jit to different companies and how it has been implemented.

Our research at the International Institute for Management Development shows that the actual application of Jit varies very much from industry to industry. In the automotive industry, almost all European car manufacturers have adopted these techniques, while in the pharmaceutical field only a few companies are starting to use them.

Given that the last recession has affected some industries more than others, it is probable that the lower profitability found in the Cambridge study has much to do with the industry in which companies compete, rather than with the application of any particular technique.

While advocates of these techniques argue that its principles are universal, the reality is that Jit does not have a dramatic impact on certain types of production process. For example, one of the objectives of Jit techniques is to transform the factory so that a continuous flow in materials is achieved, resulting in lower work-in-process inventory levels and shorter production lead times.

Its application to many electronic manufacturers has resulted in significant benefits because these companies used to operate with high work-in-process inventory levels and long lead times. By comparison, many chemical companies have always had continuous production processes and relatively low inventory levels because the high volumes they manufacture do not allow them to do otherwise. Therefore, in this type of business, the application of Jit does not make the same impact on the production process as it does in electronic companies.



Doing justice to just in time

Success with this controversial philosophy depends on the manufacturing process, writes Carlos Cordon

out of this new quasi-continuous process are abandoned because they are no longer a "core" product.

While these decisions may be sound in some cases, in others they could imply reduced volume and lower profitability. Even if Jit improves the factory operations, this practice implies a radical change in the "factory culture"; thus, its implementation requires many resources and a high dedication from top management. This represents an opportunity cost that should not be underestimated.

For instance, if a company wants to become a Jit supplier it is likely that customers will demand the supplier has a quality certification, so that products need not be tested for quality when received and an almost continuous flow of products between supplier and customer is achieved.

However, some companies complain that they were too busy obtaining the certification to dedicate any effort to actually improving quality. In some of these cases, it is not clear whether the benefits outweigh the implementation costs and opportunity costs of management distraction.

Lastly, to expect superior financial profits by just applying Jit could even be absurd in some cases. In an industry where all the competitors adopt Jit, it becomes a necessary but not sufficient condition for comparative advantage.

If a company in such an industry does not apply this technique it could be forced out of business. In other cases, companies facing serious problems have tried to apply Jit as a last resort. While in some cases this has saved the company, in others the companies have gone bankrupt and have given birth to the circulation of Jit horror stories.

Jit is neither a manufacturing panacea nor the manufacturing equivalent of alchemy. The profitability of a Jit application depends strongly on the company and the type of manufacturing process rather than on the UK culture being different from the Japanese.

The author is professor of manufacturing management at the International Institute for Management Development, Lausanne, Switzerland.

We'd like to set the record straight.

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BUSINESS AND THE ENVIRONMENT

Europe's electronics and electrical industries are about to meet environmentalists and European Commission officials to renew efforts to find a solution to the growing mountain of end-of-life products that the two industries produce.

Electronic waste comprises everything from old computers, photocopyers and stereos to telephones, cables and light bulbs. The range of products and diversity of interests - more than 60 representatives will meet in Rome - have hampered negotiations, and the group's aim to deliver a document detailing practical solutions and regulatory proposals by next July looks increasingly ambitious.

For Brussels, the latest meeting of the Rome project group on "electronic waste", one of the "priority waste streams" identified by the Commission as requiring specific action, has a particular urgency if it is to head off unilateral action by EU member states frustrated by the lack of progress so far.

German manufacturers fear that the German ministry of environment may not wait and will push through laws next year that would compel them to take back a broad range of electronic waste and meet specific recycling targets. Manufacturers could charge to recycle equipment already on the market, but would have to take back their future products free of charge.

"The model proposed by the ministry entails huge problems," says Bernhard Diezner, project group representative for ZVEI, a German electronics manufacturers association, which claims that such a policy could add between 5 per cent and 15 per cent to the price of electronics goods sold in Germany.

The annual cost of a Europe-wide end-of-life scheme for consumer electronics could be around £200-250m (£1.77bn), according to the European Association of Consumer Electronics Manufacturers.

ZVEI wants take-back schemes to be generally voluntary, with manufacturers obliged to take back only bulky own-brand products. Environmentalists counter that voluntary schemes do not work and cite battery recycling programmes, where collection rates remain low - between 15 and 40 per cent - even when collection is free.

A take-back bill for electrical and electronics goods was presented in the last Italian parliament in 1993 and could soon be presented again.

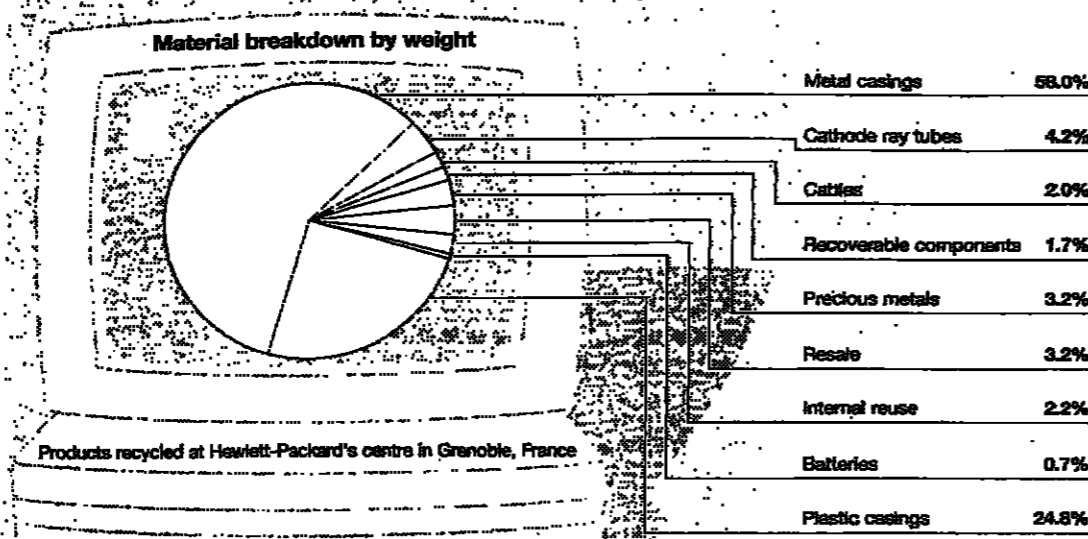
Denmark, France and Austria are among the European countries currently considering specific legislation for electronic waste. Manufacturers now fear a patchwork of conflicting, national schemes that will add substantially to their costs and distort competition by sucking in cheaper imports from EU or

Negotiations on the best fate for discarded equipment in

Europe are growing more urgent, writes Geoff Nairn

EU's electronic mountain

Recycling computer equipment



Products recycled at Hewlett-Packard's centre in Grenoble, France

Source: Hewlett-Packard

non-EU countries with less stringent rules.

Their worst nightmare is a repeat of Germany's Duales System Deutschland compulsory packaging recycling scheme, which produced more used paper and plastic than German recyclers could handle.

The manufacturers say that electronic waste in quantitative terms is less of a problem than in other sectors. In France, for example, it amounts to 1.3m tonnes each year, against 20m tonnes of household rubbish and 150m tonnes of commercial and industrial waste.

However, much electronic waste is difficult to recycle, the quantity is growing - new products now entering the market in France amount to 2.1m tonnes a year, for instance - and environmental credentials have become important selling points for manufacturers.

"The market is very conscious of the ecological image and contents of products," says Bruno Mapelli, environmental director for IBM's southern European operations.

According to a recent survey by the German environmental organisation Bund für Umwelt und Naturschutz Deutschland, most PC manufacturers now use recycled plastics, have banned CFCs and solvent-based paints, use snap-together construction (for easier dismantling), mark new plastic parts for

recycling and reuse old components for repairs. Four have free take-back schemes operational in Germany: Vobis, Apple, Actebis and Acer.

While manufacturers stress how environmentally-friendly current models are, they are less enthusiastic about taking back products now reaching the ends of their lives,

since they were never designed to be recycled.

To disassemble an old computer can take one and three-quarter hours, says Helmut Finckh, head of Hewlett-Packard's three-year-old recycling programme in Germany. To cover its costs, HP Germany charges DM10 (£4) for each returned unit; for monitors, where the lead and other metals in the cathode ray tube causes particular recycling problems, the charge is DM25. The products must be predominantly HP ones and the customer pays for transport.

HP's European subsidiaries currently send unwanted equipment to a specialist recycling centre, Hardware Recycling Europe, in Grenoble, France. Less than 5 per cent of the 100 tonnes that arrive each month goes for land-fill; four years ago, the figure was more than 30 per cent, but HP can now separate and recycle nearly all materials.

Disc drives are reused as spares, circuit boards are refined to recover precious metals, plastic is stripped

from copper cables, old microprocessors and memory chips end up in electronic toys, high-grade plastics are recycled, low-grade mixed plastics are burnt in a nearby cement kiln for their energy content.

The recovered copper, precious metals and components are sold to help pay for the costly treatments of batteries, cathode ray tubes and mixed plastic.

"Today we break even, but it all depends on the volumes handled and we still do not know whether a large-scale scheme would be economically viable," says Denise Furet, environmental project manager for Hardware Recycling Europe.

The costs of transporting end-of-life products to Grenoble from other countries have prompted HP to set up similar recycling plants in the UK and, soon, Germany, but ultimately the company would like to contract out recycling, as it is not seen as a core activity.

Several manufacturers in Europe are acting in advance of take-back laws. At the beginning of this year, for example, Deutsche Telekom formed a consortium with equipment manufacturers Siemens and Alcatel SEL to recycle a planned 12,000 tonnes of telephones, facsimile machines and other equipment this year. In Italy, IBM sent 4,500 tonnes of end-of-life equipment for recycling in 1993, with a recycling ratio of more than 90 per cent. Digital Equipment operates a similar scheme in the Netherlands.

However, left to market forces, it seems unlikely that electronic waste recycling can be extended throughout Europe. Specialist recyclers are rare in many countries and spot prices for recycled materials are volatile. White goods and consumer electronics contain little valuable material. For other products, the time and effort required to dismantle, separate and identify the different materials can make recycling uneconomical.

DST Logistics, the recycling subsidiary for IBM in Italy, has tested specialised X-ray and infra-red equipment to sort recovered plastics into more than 30 recyclable classes, but not all recyclers can justify such investments.

Ferruccio Mori, chairman of DST Logistics, identifies a more general problem: "It costs £80-£90 (a few pence) a kilo to dump in Italy. If land-fill were to rise to £1,000 a kilo the economics [of recycling] would change," he says.

Maria Almeida-Toixeira, the Commission's co-ordinator for the electronic waste group, set up nearly a year ago, admits that progress has been slow, but believes that with two further meetings next year there is still time to achieve a broad consensus. However, "it is too early to say what will come out."

Time running out in Bulgaria

Tough choices on power must be made, writes Jane Martinson

Faced with heavy dependence on nuclear power to serve growing energy demands, the Bulgarian government is urgently looking for a way out of a dilemma.

Last week a report outlining options for Bulgaria's energy sector was presented to the Bulgarian authorities and to the safety regulator's office by Energoimport, a Bulgarian institute. No decision is likely until a new parliament is in place next year, but the government is under pressure from safety organisations to act as soon as possible.

Three years ago, the nuclear power plant at Kozloduy on the Danube, which supplies up to 45 per cent of Bulgaria's power, was dubbed the most dangerous in the world by the International Atomic Energy Agency. The two oldest units, Russian-designed 440MW WWER pressurised water reactors built in 1974 and 1975, were closed for two years for repairs, and work on a second plant on the Danube at Belene was stopped.

The government says it has spent some £650m (£55m) on safety improvements at Kozloduy since then. The European Commission and the European Bank for Reconstruction and Development have committed £58m for further work.

The £12m being managed by the EBRD is intended to facilitate the earliest possible closure of the four 440MW WWER reactors at Kozloduy. The EBRD recognises that alternative energy sources must be found before the units could close, but the pressure in on Bulgaria to find a safe, reliable and affordable alternative.

The Energoimport report sets out options ranging from closing the plant immediately, which has little support in Bulgaria, to allowing Kozloduy to work at full capacity until the oldest reactors reach the end of their design life.

Ivan Ivanov, deputy manager of the plant, believes the oldest units could last until 2006.

Although a great deal of safety work has been carried out, there are still concerns among western safety organisations. There are

worries over weaknesses in the design of the 440MW units, including the embrittlement of the pressure vessels and an absence of containment for primary pipe ruptures.

The lack of storage for spent fuel at the plant is also causing concern. Russia, which supplies the uranium, used to reprocess Bulgaria's spent fuel at a nominal fee, but now charges \$1,000 per kilogramme of heavy metal. The Bulgarians cannot pay this and wet storage tanks at the plant are nearly full.

Prof Ivan Uzanov, at the department of nuclear physics at Sofia University, is particularly concerned about storage facilities for the 600 tonnes of spent fuel in an area prone to seismic activity. "If a catastrophic earthquake leaves this spent fuel without cooling water, it is easy to calculate that the emitted activity could be four times more than from Chernobyl," he says.

Nikita Shervashidze, president of the government's energy committee, says several western companies have tendered for a contract to build new storage facilities, but there will be no decision until the end of the year. Yanko Yanev, Bulgaria's atomic safety regulator, says a "medium" option of closing units one and two, perhaps as soon as 1996, and devoting more resources to thermal-powered plants, might be the best. He believes that coal-powered plants can be made economic, but that Bulgaria will need help from western agencies, such as the World Bank.

Steps are also being taken to find funding for the completion of two 1,000MW WWER reactors at Belene. When these are finished, says Shervashidze, two Kozloduy units can be closed.

The Bulgarians are in talks with Russian and Turkish private investors about funding the plant's completion, which would take up to 10 years.

Energy consumption in Bulgaria increased by 3 per cent between 1993 and 1994, against all predictions. Such figures suggest that the time for decisions on an alternative to Kozloduy may be running out.

PEOPLE

Wellman recruits out of the furnace

Wellman, the specialist engineering group, announced five senior appointments yesterday as part of a reorganisation following the £46m acquisition of three businesses from FKI, the electrical engineering and components concern.

Two external appointments have been made. Andrew Carnegie takes over as md of Wellman Robey, which makes industrial boilers and pressure vessels. He was formerly md of a competitor, NEI Cochran. Don Lupton has been appointed operations director of Wellman Furnaces. He too was previously at a competitor.

■ Andrew Williams has been appointed manufacturing director at Reten Acoustics. Martyn Pitman has been appointed md of Analytical Development, and Tony Reynolds, formerly finance director of The Expanded Metal Company, has been appointed to the same post at Elfab. Philip Bell has been appointed md and Kevin Breen vice-chairman of MXS, and Rob Holditch promoted to sales director of Memco; all companies are subsidiaries of HALMA GROUP.

■ Chris Horton, formerly assistant secretary at Hepworth, has been appointed group secretary of LEIGH INTERESTS on the retirement of Derrick Armstrong.

■ Kevin Day has been promoted to the board of KONIKA UK as director, sales and marketing.

Davy Priest Furnaces. Three internal promotions to md have also been announced - Alan Phillips at the Wellman Data Recording Group, Craig Pilkington at Wellman Garage Equipment, and Jim Wright at Wellman Service Group.

Carnegie has replaced Ken Homans, who is retiring, but the other posts are new. They are the first stage in a planned post-takeover reorganisation at West Midlands-based Wellman, says chief executive Alan Baxter.

Baxter was a former main board director at FKI, joined Wellman last November, and

first approached FKI with the acquisition proposal. The deal was completed in August, and has increased Wellman's annual turnover from £25m to about £125m.

■ At Spirax-Sarco Engineering, the Cheltenham-based steam equipment specialist, Chris Tappin has retired as executive chairman but will remain part-time chairman. Tim Fortune, who was named managing director in 1992, became chief executive on November 1.

Tappin, 57, said the change was "one little click further in our succession planning". Tappin joined Spirax-Sarco in 1964 and was appointed to the board two years later. From 1988 to 1992 he was chairman and chief executive. Andrew Baxter

Biffa's Bettington floats up at Severn Trent

Severn Trent yesterday reaffirmed its commitment to the waste management business. Biffa, with the appointment of two new executive directors to its board.

Brian Duckworth, 45, and Martin Bettington, 49, are joining the board in advance of the retirements next year of Rodrick Paul, chief executive, and Michael Upstone, former director of customer service. Paul and Upstone are both retiring at the age of 60.

Bettington, managing director of Severn Trent's waste management business, joined the company in 1991, when it bought Biffa from BET for £212m.

Severn Trent said yesterday

that Bettington's appointment signalled the company's "commitment to developing the waste side of the business through Biffa".

The appointment was seen by analysts in London as Severn Trent's attempt to dampen speculation that it was considering selling the waste business. Severn Trent has been criticised in the past for locking itself into onerous financing for Biffa.

Duckworth is strongly linked with the regulated utility side of Severn Trent, and led the price negotiations with the industry regulator in the last review. He was recently appointed customer services director. Peggy Hollinger

Non-executive directors



■ Sir Clive Whitmore (above), retired permanent under-secretary of state at the Home Office, at RACAL ELECTRONICS.

■ Charles Nunneley, chairman of MBRO and deputy chairman of Robert Fleming Holdings, at NATIONWIDE BUILDING SOCIETY; Sheila Heywood is retiring.

■ Peter Hodges has resigned as chairman of WARD HOLDINGS.

■ Angus Clark, a director of J. Sainsbury and this year's president of the Freight Transport Association, at AAH.

■ Bob Simm, former UK chairman and senior partner of KPMG Management Consulting, at LAMP DEVELOPMENT MANAGEMENT.

■ Chris Duckworth, former finance director, at VEGA GROUP.

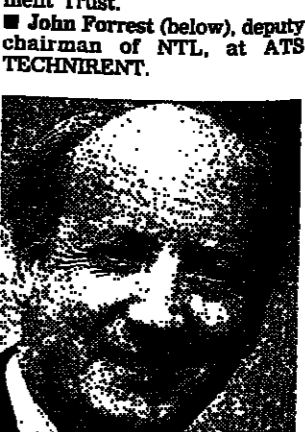
■ Roger Leverton, group chief executive of Pilkington, at SMITHS INDUSTRIES.

■ Peter Morgan, former director general of the Institute of Directors, at ZERGO.

■ David Langridge at The WOODGATE FARM DAIRY.

■ Fred Crawley, chairman of Girobank and the Alliance and Leicester Building Society, as chairman of the LEGAL & GENERAL Recovery Investment Trust.

■ John Forrest (below), deputy chairman of NTL, at ATS TECHINRENT.

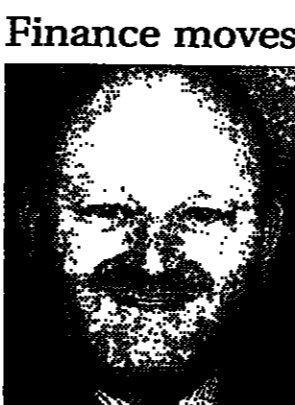


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Geoff Henry, 50, is to be the next chief executive of the Merchant Navy Officers Pension Fund. He takes over from Tony Ashmore, 57, who retires at the end of the year after ten

years at the helm of the £28m fund.

The MNOFF is one of the largest industry-wide pension schemes although the decline in Britain's merchant navy means that the number of contributing members has fallen from around 40,000 in the 1950s to just 6,000. However, the fund services 17,000 pensioners and also has another 33,000 deferred members.

Henry, who used to work for British Shipbuilders pension fund, has been the MNOFF's director of finance for the past nine years and managing director of its pensions administration subsidiary for the past four years. William Hall

■ Tony Haire has been promoted to md of CATER

ALLEN Bank (Jersey). Ronny Meitl has been appointed to the board of Sheppard Moneybrokers, part of Cater Allen Group.

■ Chris Cottrell, chief executive of Fleming Luxembourg, has been given responsibility for SAVE & PROSPER Broker Services and joins the main board.

■ Bill Brown has been appointed a director of BARONSMEAD.

■ John Sharmar, formerly a director of Allied Dunbar Asset Management, has been appointed head of global fixed interest at HENDERSON INVESTMENT MANAGEMENT.

■ Alan Smith has been promoted to md of The BANK OF BERMUDA (Isle of Man).

Edward Mortimer



The Balkan disease

West Europeans may not be immune, as the Slovenia-Italy dispute shows

If there is one indisputable success story in post-communist central Europe, five years after the fall of the Berlin Wall, it is surely Slovenia.

I think of Slovenia as "the one that got away". It was part of Yugoslavia, but succeeded in extricating itself at the price of a phoney war lasting one week, in which only eight of its people were killed. Since then, its leaders have been at pains to explain, to anyone who will listen, that Slovenia is not a Balkan country.

It is, they tell you, a central European country: normal, peaceful, a showcase of transition to democracy and the market. Already 60 per cent of its foreign trade is with the European Union, and that will rise to more than two-thirds when Austria joins the EU in two months. Per capita income is higher than that of Greece or Portugal.

Like the Czech lands, Slovenia was formerly in the Austrian part of the Habsburg empire, whereas Croatia, like Slovakia, was in the Hungarian part. It may not be pure coincidence that Slovenia and the Czech Republic are the two central European countries identified by the European Commission as likely to be ready for EU membership by the end of the decade. Certainly Slovenia, with its lush Alpine scenery and evident prosperity, feels like a southward extension of Austria, only with much lower prices.

British ministers will have heard all this *ad nauseam* in the past two days, as they have been entertaining the Slovenian prime minister, Mr Janez Drnovsek. Slovenia's leaders have an obsessive fear that their achievements are not recognised in the west. They react instantly to any implied hint that Slovenia is still in the "Balkan" or "former Yugoslav" category.

Ironically, in its haste to escape from the Balkans and join western Europe, Slovenia has tripped up on a dispute of what might be considered the "Balkan" type, only with a west European country.

What would be a typical Balkan conflict, in the sense in which Slovenes and west Europeans use that term? One in which ethnically defined states make claims on each other in

the name of kinsfolk living the "wrong" side of a frontier. One in which the crimes of people long since dead are called in evidence to justify an alarmist interpretation of the behaviour or intentions of people wearing the same state or ethnic labels today. And, perhaps, one in which inter-state quarrels are exacerbated by domestic power struggles, as some politicians raise nationalist slogans to advance their cause, while others fear losing popularity and influence if they resist.

All those elements are present in the dispute between Slovenia and Italy. Its roots lie

Slovenes fear being bought out of house and home by superior Italian purchasing power

deep in the more unpleasant episodes of 20th century European history, when nation states in the grip of totalitarian ideologies tried to set their exclusive stamp on lands where different identities had long coexisted and overlapped. The eastern coast of the Adriatic was such a land. For centuries its ports and fishing villages had a Roman or Venetian culture, while the shepherds and farmers of the over-looking hill country spoke south Slavonic dialects - but goods, ideas and vocabulary were freely exchanged between the two. Only in the 19th century did the difference become political, as Italian nationalists laid claim to the area and the Habsburg authorities countered by encouraging education in the Slav vernaculars.

After the first world war, Italy, as a victor power,

annexed the Istrian peninsula. Soon afterwards Mussolini came to power and set about ensuring its Italian character with all the tact and subtlety for which he was famous. In the second world war the wheel of fortune turned. Italy was defeated. Tito's partisans triumphed and incorporated the area into Yugoslavia, except the city of Trieste, from which the western allies evicted them. In 1954 the great powers converted *de facto* control into *de jure* sovereignty. Yugoslav territory was given the choice of accepting Yugoslav citizenship or moving to Italy. Most of them moved, preferring democracy among their kith and kin to life in an alien and unsympathetic communist state.

Altogether some 350,000 Italians left Istria after 1945: roughly 60 per cent from the Croatian part and 40 per cent from the Slovenian. In 1983 Yugoslavia agreed to compensate them for the property they had left behind. Slovenia, as a successor state, is happy to continue its share of the payments. But Italy now refuses to accept compensation, arguing that Italians should have the same rights given to Slovenian citizens - to claim back property taken from them by the Yugoslav state, and to bid for publicly owned real estate when it is put up for sale.

Slovenes fear being bought out of house and home by superior Italian (and German and Austrian) purchasing power. They also see the Italian request as an attempt, egged on by neo-fascists in Silvio Berlusconi's government, to reopen the postwar borders: a dangerous precedent for Europe as a whole. Italy is now blocking the opening of negotiations on an association agreement between Slovenia and the EU until the bilateral dispute is settled. Last month Slovenia sent a lame-duck foreign minister to negotiate, then repudiated the compromise text that he brought back. Which side, one is tempted to ask, is behaving in a more "Balkan" manner?

But perhaps that is the wrong question. The right question is whether west Europeans are justified in thinking themselves immune from "Balkan" reflexes - or whether, if they do not find better ways to treat it, they will not gradually fall victim to the Balkan disease themselves.

For the world's chemical giants, the good times are rolling. Sales are rising, and profits are soaring. Yet in this notoriously cyclical industry, the next downturn is never far away. How far depends on whether this year's rising chemicals prices owe more to increased demand or to temporary constraints on production, providing only a short-term filip.

The industry is divided on the matter, but not on the fall-out: third-quarter results have been excellent. Dow Chemical of the US reported post-tax profits 102 per cent higher than a year earlier, while US rival Du Pont turned a \$680m loss a year ago, affected by a restructuring charge, into a \$650m profit. In Europe, ICI's pre-tax profits were 59 per cent higher than a year earlier. There were spectacular figures too from BP Chemicals in the UK, France's Rhone-Poulenc, DSM of the Netherlands, and Dutch-Swedish combine Akzo-Nobel.

Industry leaders have been only too willing to claim the credit for this turnaround. "The majority of the improvement has come from hard-won market volume gains and improved productivity," says Sir Denis Henderson, ICI chairman.

Mr Edgar Woolard, Du Pont chairman, says: "This performance confirms that transformation efforts to make all of our businesses globally competitive are working."

But this pride would seem to be inflated. The previous five years of depressed prices and heavy losses brought only modest restructuring to the industry and few real capacity cuts.

Efforts were made to secure deeper cuts, but they proved unsuccessful. A year ago, European producers of ethylene, perhaps the most important of the ingredients for plastics, formulated a plan to shut more than 10 per cent of capacity in Europe. Prices were so low that all but the largest and most efficient plants were losing money.

But the plan collapsed because each individual producer feared it would have to bear the brunt of the cuts. Piece-meal closures followed, including the BP Chemicals plant at Baglan Bay in Wales. But European capacity fell by less than 3 per cent.

US producers also restructured only modestly. So modestly that, in ethylene for example, capacity continued to rise throughout the recession.

The buoyant chemicals industry is preparing for the eventual downturn, says Daniel Green

Formula for explosive reaction

The story was repeated in other sectors, such as propylene and styrene in Europe and North America.

Rather than plant closures, the recovery in chemicals has been driven by economic recovery in the US and continued growth in Asia, says Mr Richard Sleep, a consultant with industry consultancy ChemSystems.

Chemicals and their immediate derivatives such as plastics are vital to almost every sector of manufacturing, and are particularly important to the producers of cars and trucks, packaging and construction materials. As economic activity has picked up, so has the demand for chemicals.

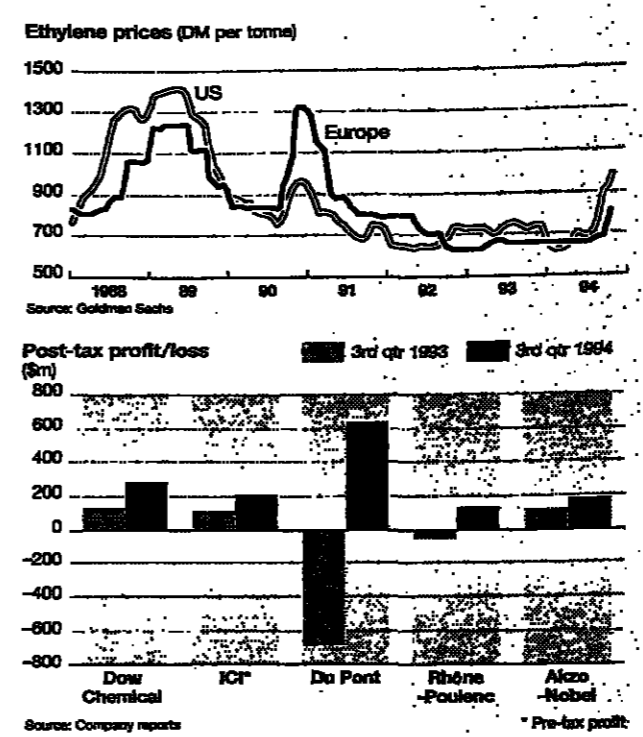
In the face of increased domestic demand, US and Asian producers have all but abandoned exports to Europe, thereby boosting the fortunes of European producers in their own home markets. European producers have also been gaining export markets in the US. "Petrochemicals and polymers production in the US and Europe is up about 10 per cent. But in Europe, what's really driven prices up is exports to the US. This is very unusual," says Mr Sleep.

Increased demand has been pushing up chemical prices for several months. But traders in the world's chemical markets have been just as affected by a series of accidents, which have curbed the industry's production capacity.

Some of these have been plant failures, blamed on tired machinery struggling to cope with a sharp rise in production. "It's like running a rather old car very gently for several years and suddenly putting your foot down," said one industry executive.

Among the biggest were fires and an explosion at Exxon Chemical's complex at Baton Rouge, Louisiana, on August 8 which hit the US ethylene market. A ruptured pipe and fires at Enichem's Priolo plant in Sicily cut production of ethylene and polyethylene in Europe. The industry has even suffered natural disasters, such

Chemical industry: fizzing again



as last month's floods in southern Texas.

All these accidents have caused capacity cuts. In August and September, US and Italian producers experienced a 3m tonne fall in their naphtha cracking capacity - a vital early stage in petrochemicals

It's like running an old car gently for years and suddenly putting your foot down

manufacture. This was equivalent to an 8 per cent cut in capacity for ethylene production.

At a time of rising demand, chemicals markets have proved highly sensitive to such unplanned cuts. An explosion on October 12 that shut a 420,000 tonnes a year methanol plant in Texas - closing more

than 6 per cent of US capacity - triggered a 14 per cent rise in European spot methanol prices. Methanol is used in the manufacture of petrol and of plasticboard for the construction industry.

Mr Edmund Clincksper, director for supply and planning in basic chemicals at Exxon Chemical, says that the combination of economic recovery and plant shutdowns has triggered price rises that have, in themselves, pushed up demand.

"Prices are rising, so people want to buy today before the price rises again," says Mr Clincksper.

Such restocking can be only a temporary phenomenon, however. Within months, distributors and customers will have tied up as much working capital in stocks as they feel comfortable with.

But optimists argue that the initial causes of the price rises are likely to continue for some

time. It takes at least three years, from approval, to achieve significant production levels in new plant, they say. Furthermore, even if exports from Europe dry up as new plants are commissioned in North America and Asia, they argue that the European recovery that is only just starting will take up the slack.

More cautious voices say that damaged factories can be repaired within months. They also argue that European and Asian manufacturers will find the US a more difficult market once Dow Chemical's new cracker capacity has come on stream in the US next year.

In addition, some of the greatest growth in demand has been coming from price-sensitive Asian customers, such as China.

"China will not stop buying at once, but if prices are moving too high too fast, there may be some slowdown [in sales]," says Mr Philippe Goebel, vice-president of planning at France's Elf Atochem, part of the petrochemical giant Elf Aquitaine.

Mr Clincksper echoes his concern: "We can't count on Chinese imports remaining at this level. I wouldn't be surprised if profit margins across the whole industry peaked in the first half of 1995."

That profit margins will recede is a matter on which optimists and pessimists alike agree. High prices will trigger capital investment that will lead to overcapacity and price competition. The cycle will continue, and the industry will be faced with its next downturn.

However, the industry is determined that there will be no return to the loose cost controls of the 1980s, when inefficiency and under-investment proved sustainable thanks to high demand.

Some companies claim that they have done enough restructuring to stay profitable through another recession.

Mr Ettore dell'Isola, chief executive of EVC, the PVC manufacturing joint venture between ICI and Enichem, says that EVC would not have made losses during the last recession with the cost base it hopes to have by the end of next year.

Others place more emphasis on the shift in their attitude. One such is Mr Karl Timmons, Du Pont's vice-president of finance, who says: "Although our formal restructuring programme is over, we don't think that cost-cutting will ever end."

LETTERS TO THE EDITOR

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Better environment not costly exercise

From Sir Anthony Cleaver

Sir, Dr David Slater's call for volunteers to help prove that tighter environmental controls need not be as expensive as critics believe ("Pollution cost plea to industry", November 2) is most welcome and timely.

All my experience of working with companies which have invested in upgrading their environmental performance has persuaded me that it is often possible both to do this and to improve profitability at the same time.

The experience of AEA Technology as a leading environmental consultancy confirms that the key to success lies in integrated environmental solutions which embrace the entire plant or process, rather than in

spending money on "end-of-pipe" add-ons.

Wider adoption of the integrated approach will deliver significant competitive advantages for UK industry and a cleaner environment for us all.

As well as volunteering for Dr Slater's experiment, interested companies would be well advised to participate in the Environmental Technology Best Practice programme. This is being managed by AEA Technology and aims to promote better environmental practice at the same time as increasing competitiveness.

Anthony Cleaver, chairman, AEA Technology, Camard House, 15 Lower Regent Street, London SW1Y 4LR

Deal within guidelines

From Mr Mark Callanan

Sir, To set the record straight, the Royal Mail's pay deal with the executive of the Union of Communication Workers ("Royal Mail flouts pay freeze with 3.4 per cent offer", November 5) does not breach government pay guidelines.

The deal consists of an increase in basic pay of 2.5 per cent plus a further 0.9 per cent in respect of current unwarded productivity improvements. Its effect on the annual pay bill is a net reduction of about 0.2 per cent provided

by a fall in headcount.

The "supplement" of £1.50 does not add a further 0.6 per cent to earnings as stated by you. It is, in fact, a straight transfer from non-pensionable pay to pensionable pay of that amount, and it will lead to a small reduction in take-home pay because of the employees' contribution to the pension scheme.

Mark Callanan, national head of remuneration and employment, Royal Mail, 148 Old Street, London EC1Y 9HQ

Chuzzlewit dull in part, but mostly absorbing

From Ms Elizabeth Wells

Sir, I should be grateful for the opportunity to enlighten Christopher Dunkley (Television, November 7) on *Martin Chuzzlewit*. Even Dickens's Victorian readers, who were blessed with much wider attention spans than most people are able to demonstrate today, found the novel's American chapters extremely dull and uninteresting. It is possible that they were invented by the author to promote the novel's disappointing early sales. Indeed, then and since, these chapters have proved so much

of an annoyance that they have frequently been skipped over and left unread so that the enthusiastic reader can concentrate on the wonderful characters and thoroughly absorbing events contained in the main part of the book.

I urge Dunkley to read the novel: I am sure that once he has, he may well find that he agrees with these sentiments. Elizabeth Wells, 16 Fir Cottage Road, Barkham Wood, Wokingham, Berkshire RG16 7RY

Shortcomings prejudice move to European unity

From Mr J M Paton

Sir, Karl Lamers (Personal View, November 7) puts forward a compelling case for monetary union in the development of the European Union. The Treaty of Rome put the case for free trade within the community in the 1950s in much the same way.

Some 40 years down the road, however, we have the UK industry in Europe but with companies being forced out of business because of ongoing blatant internal subsidy of many European steel producers elsewhere, not least in Germany. Is this not an aspect of national sovereignty which

Germany and others choose to ignore?

Let us put first things first, before moving on to more sophisticated alignments which will generate more problems than economic unity.

When will continental Europe understand that we in the UK are not opposed to European union but are sickened by holier-than-thou appeals proclaiming higher aspirations while ignoring fundamental shortcomings in meeting the requirements of the Treaty of Rome?

Doctor heal thyself. J M Paton, Culter House, Chester Road, Middlewich, Cheshire

Market has the right AIM for young companies

From Mr Gavin Don

Sir, Your epitaph for the Alternative Investment Market (Lex: "Questionable AIM", November 7) is premature, to say the least. M&G's statement that its funds will avoid the market comes as no surprise to those involved in the design of the AIM, and indeed we would have been more surprised had M&G indicated that it would be investing.

The AIM has from the outset been conceived as a market for the larger retail investor, and the stock exchange's proposals have quite rightly focused on balancing the needs of those investors with the need to reduce access costs for young

companies to the minimum. The likely size of AIM companies will automatically lead the great majority of institutions to ignore the new market.

You lament the absence of private sector initiatives to meet the needs of young companies. Past experience of such markets has shown that the confusion created by a diverse portfolio of products obstructs their growth and acceptance (witness the confusion among investors, intermediaries and companies over the relative merits of the Unlisted Securities Market, Rule 585.2/4.2 and the Third Market).

A single, effective solution, launched on the back of an

infrastructure already in existence and paid for, which can provide one forum for the raising of capital in amounts well below the range of the Official List, should be welcomed as a significant tool for the support of industrial investment. The USM, in being too much like its elder brother, failed in this respect, as would the European Venture Capital Association's proposals. Provided the exchange remains true to its current vision, the AIM has every chance of meeting an urgent need.

Gavin Don, Equitas, 2 Clermont Terrace, Edinburgh EH12 6NF

More confused

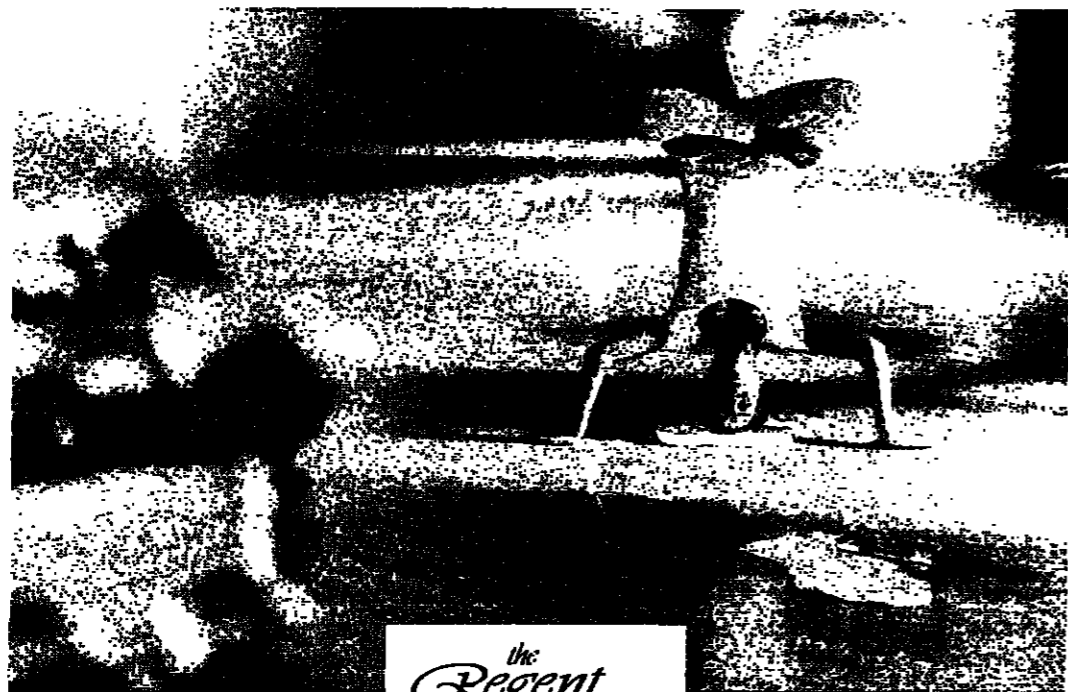
From Mr Paul Richards

Sir, Norman Lamont described the Conservative backbenchers who forced the U-turn over Post Office privatisation as "a taxi-full of flotsam and bobtail" ("Tory right threatens EU revolt after retreat on postal sell-off", November 7).

What a confusing use of English. Does he mean "flotsam and jetsam"? Or is the phrase he is grasping for "rag, tag and bobtail"?

Mind you, he wasn't much good with figures either. Paul Richards, 109 Hammersmith Bridge Road, London W6 9DA

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FINLAND

Wednesday November 9 1994



A coming of age as a shadow is lifted

Hugh Carnegie assesses the impact of the country's significant decision last month to vote in favour of joining the European Union

On October 18, as the first snows of the long Nordic winter fell across much of the country, Finland accepted the most important change in the political alignment of the nation since it achieved independence from Russia in 1917 when the electorate voted in favour of joining the European Union. The referendum result - acceptance of membership by a margin of 56.9 per cent to 43.1 per cent - was decisive without being overwhelming. There was little sense of drama on the day and no jubilation when the outcome was announced. Indeed, there was considerable disquiet over the way the issue had divided the country between the more urbanised south, which voted heavily Yes, and the rural, remote central and northern regions, which voted No.

But the decision was welcomed with satisfaction and relief by the vast majority of Finland's political establishment, the leaders of industry and the trade unions and the nation's media. After Finland's uncomfortable neutrality in the shadow of the Soviet Union since the second world war and the hardest recession since the 1930s, stepping into the EU fold is regarded by its supporters as a vital step towards long-term strategic and economic stability. "It is a coming of age for Finland," declared Mr Paavo Lipponen, leader of the opposition Social Democratic party and, if the opinion polls are right, the man who will be prime minister after the general election next March.

For the European Union, too, Finland's entry will be a significant moment. The EU will

acquire its first direct frontier with Russia in the form of the 1,270km-long Finnish-Russian border. EU territory will extend for the first time into the Arctic Circle, taking in expansive forestry resources - which will be even greater if Sweden and Norway also join.

Some uncertainties persist which contributed to the subdued mood after the referendum. Finland will be deeply disappointed if its Nordic neighbours, with which it worked closely as they all pursued their EU applications last year, vote against membership in the Swedish and Norwegian referendums on November 13 and 28 respectively.

Opponents of membership also mounted a tenacious filibuster to postpone this week's scheduled parliamentary vote needed to confirm accession until after Sweden's referendum in the hope that a Swedish No might swing enough MPs to form a blocking one-third minority. But if the government wins, as expected, Finland will join Austria as a new member of the EU on January 1 next year.

What will membership mean for Finland?

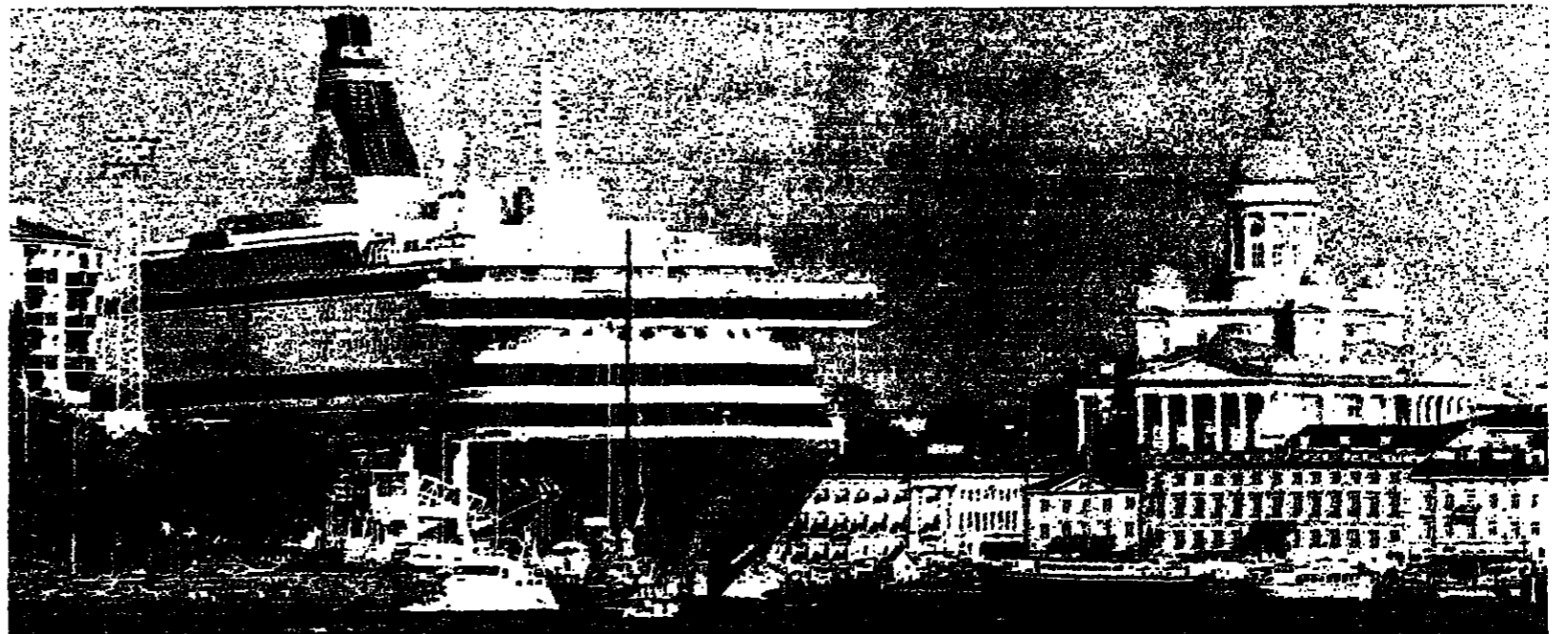
In economic terms, there are some immediate difficulties which, again, were part of the reason why the country reacted coolly to its decision. Above all, joining the EU is set to trigger a fall in incomes of up to 45 per cent over the next few years for Finland's influential farmers. Helsinki has long subsidised agriculture at levels well above those provided by the EU, partly to ensure the continued population of rural areas and partly as a political pay-off for support from rural communities.

But under the terms of its accession agreement, Finland must adjust immediately to the farm price regime of the common agricultural policy. Brussels rejected Helsinki's demand that the whole country be treated as a special case for subsidies because of its harsh climate. A national package of transitional supports has been outlined, but its cost, on top of Finland's "membership fee" will add FM10bn to government spending next year, deepening the budget deficit.

As a member already of the European Economic Area agreement, Finland will not achieve any significant immediate economic benefit from membership, apart from the removal of customs barriers with the EU. But the strong belief in government and industry is that membership of the EU will serve to underpin Finland's economy just as it is pulling out of a severe recession. Between 1990 and 1993, the economy shrank by some 15 per cent following the collapse of the Soviet Union (with which Finland enjoyed lucrative trade ties), the impact of the international recession and the collapse of a credit boom at home. Unemployment neared 20 per cent of the workforce.

An export-led recovery is now under way, producing growth this year of some 4 per cent and probably more than 5 per cent in 1995. The hope is that EU membership will help foster confidence in the economy both at home and abroad, ease long-term interest rates which presently stand at around 10 per cent and generate a much-needed revival of investment and consumption.

On the strategic front, joining the EU is of great significance for Finland, which was ruled for centuries by Sweden and then by Czarist Russia. Finland's 77 years of independence have been marked first by conflict and subsequently by cold war tensions. Finland fought several bloody wars to preserve its independence, first a battle against the nascent Soviet Union complicated by a simultaneous virtual civil war and then, during the second world war, an awkward struggle initially against Moscow and then against Nazi Germany. In the post-war period, Helsinki adopted a neutral stance in which it maintained a delicate balance between its capitalist economic and instinctive cultural ties to the west and its pragmatic political and trading ties with the Soviets.



Helsinki, capital of Finland, which will be deeply disappointed if its neighbours, Sweden and Norway, decide later this month to vote against European Union membership

Tony Andrews

Russia today, so it is a question of security," says Mr Pertti Salolainen, deputy prime minister in the centre-right government of Mr Esko Aho, the prime minister.

"The mere fact of being a member of the EU will give security because then you are untouchable militarily - with out having to make any new military arrangements. The EU could never accept any aggression against one of its members," says Mr Salolainen. Nevertheless, Finland is trading cautiously over its strategic and military future. Helsinki has joined Nato's Partnership for Peace initiative. Mr Aho says the country will take up observer status in the Western European Union. In addition, Finland will participate in the EU's move under the Maastricht Treaty towards a common foreign and security policy.

But Mr Aho, mindful of Russia's continued sensibilities about the stance of a neighbour that commands the Baltic approaches to St Petersburg, says Helsinki does not intend a sudden change in Finland's military stance. "It is in the interests of the EU that the present stability in this part of

the continent be preserved. We have no intention of changing this stability and that is why we have no intention of changing our basic political orientation," Mr Aho said last month.

Instead, the prime minister likes to stress the opportunities for Finland, Russia and the EU offered by Finnish membership. He sees Finland acting as a conduit for increased trading and political links between Brussels and Moscow. "Our skills and experience in dealing with Russia will be at the disposal of the EU for the development of the Russian economy," he says.

As for Finland's stance in the evolving debate over the future structures of the EU, both Mr Aho, leader of the rural-based Centre party, and Mr Lipponen say Finland will play a pragmatic role. It has accepted the Maastricht Treaty with its plans for European Monetary Union and closer political co-operation. Although some way from meeting EMU convergence targets because of the size of its public debt and budget deficit, Helsinki is committed to achieving them.

For the time being, however, all the main political parties are being careful not to become identified as belonging either to the federalist camp within the EU or the anti-federalist camp. Mr Lipponen accepts that if EMU occurs it will require closer political ties, but he, like the prime minister, stresses the importance of avoiding over-centralisation and, above all, of protecting the interests and influence of the smaller nations.

In this approach, Finland will undoubtedly be joined by Sweden and Norway if they also become members. With Denmark, they would form a Nordic bloc, which is likely instinctively to resist federalist pressures.

But Finland is not comfortable with talk of different grades of membership according to a willingness to push towards federal structures. Mr Salolainen, who as trade minister was one of Finland's negotiators with Brussels, put it thus: "They may be onion rings in the European Union, but from the outset we do not accept a situation where certain countries constitute a core and the others are outside. There must be organic development that is not artificial or imposed."

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FINLAND 2

After a severe recession, the country hopes for growth of 5 per cent in 1995, writes Hugh Carnegie

Economic recovery starts to take root

For the first time since 1990, economic activity in Finland shows signs of reviving.

Between 1990 and 1993, the country suffered the hardest recession to have hit any member of the Organisation of Economic Co-operation and Development since the second world war.

The economy, hit simultaneously by the international recession, the collapse of trade with the neighbouring Soviet Union, the bursting of a credit boom and the burden of an expansive welfare system, shrank by some 15 per cent over the period. Unemployment shot up from 3.4 per cent of the workforce in 1990 – one of the lowest rates in Europe – to today's level of 13.5 per cent, putting Finland alongside Spain and Ireland at the top of the European jobless league.

This year, however, a recovery that began to show itself in late 1993 has taken root. Driven by a powerful surge in exports, gross national product is set to grow by 4 per cent this year, with domestic demand also beginning to revive, official estimates forecast up to 5 per cent growth in 1995.

"That is regarded by many

economists as too cautious and I hope they are right," remarks Mr Sixten Korkman, the finance ministry's chief economist.

The sense of rekindled optimism was reinforced on October 16 when a referendum of the electorate approved Finland's entry next year to the European Union. The result was greeted with enthusiasm by business leaders, the trade unions and most of the political establishment as an important confirmation of Finland's trading position and a spur to new investment.

"EU membership is good for our economy," says Mr Korkman. "It should help to sustain the momentum of our recovery and help to bring down long term interest rates. Investment activity should benefit because there will be more certainty about the rules of the game."

Several factors have combined to provide the turnaround. Above all, the country's exporting industries – notably the big forestry companies and manufacturers such as Nokia, the telecommunications group – have been able to exploit fully a pick-up in international demand, thanks to the

sharp devaluations of the Finnish markka in 1991 and 1992 and productivity gains that have made them much more competitive than previously.

This year exports are set to rise by some 15 per cent over last year, producing a surplus on the balance of payments current account equivalent to 2 per cent of GDP, after 10 years of deficits.

Meanwhile, both consumption and investment are set to grow this year and next after long periods of contraction, but annual inflation is among the lowest in Europe at less than 2 per cent.

The prospect of a vigorous recovery after such a tough recession has caused considerable satisfaction in Finland and its affairs better than neighbouring Sweden. Although Sweden has suffered much less of a contraction in its economy, its recovery is threatened by a deep budget deficit and rapidly growing public debt that have pushed up interest rates.

International demand has picked up, thanks to the devalued markka

Finland, too, has experienced a sharp deterioration in its public finances. But under the stern guidance of Mr Iiro Viinanen, finance minister in the centre-right government, fiscal policy has been kept largely under control. State debt has gone up fast from very low levels to approaching 70 per cent of GDP. But by sticking to a policy of not allowing government spending to grow in real terms, the debt has not reached the levels of almost 100 per cent of GDP reached in Sweden.

Even in his 1995 budget, with the unpopular government facing defeat in the March general election, Mr Viinanen has pushed through a small cut in expenditure in real terms, despite having to allow for some FM10bn in net extra spending stemming from Finland's accession to the EU. Finland's debt growth will peak next year and the country should start meeting the EU's convergence criteria of budget deficits not exceeding 3 per cent of GDP by 1997.

But the optimism about the

recovery is dampened by the overwhelming political and social problem posed by unemployment. Just how difficult this will be to reverse was outlined by a special commission appointed earlier this year by President Martti Ahtisaari to study the problem.

The commission concluded that to achieve a target of cutting unemployment to 200,000 from the present level of 480,000 by the year 2000 would require annual growth of 5 per cent a year. Even if that was achieved, unemployment would still be running at 8 per cent of the workforce.

A key factor in attaining such growth will be investment and consumption levels. Both were depressed during the recession. Household consumption was cramped by high levels of indebtedness while public consumption has been squeezed by the need to control the public finances.

The latter will continue to be depressed. But there are now signs of renewed private consumption and investment is set to grow by 3 per cent this year and by 15 per cent in 1995. However, with long-term interest rates still around 10 per

cent, and many households and businesses still wary of borrowing, the conditions for expansion are still limited.

The presidential commission's prescription for engendering sustained growth included more stringent spending cuts – that would inevitably cut into popular welfare provisions – a cut in marginal income tax to 50 per cent from the present rates of around 60 per cent, cuts in employers' social security contributions and a variety of labour market measures. These ranged from trade union-friendly proposals on sabbatical leave to employer-friendly measures on more flexible working hours and hire-and-fire regulations.

Members of the commission, a mix of non-overtly political academics and industrialists, clearly hoped their report would attract a political consensus behind it. It has at least achieved the merit of having set the economic agenda for the general election. But political action to enact its recommendations before then is far from certain as the Social Democratic party has so far hesitated to join the government's call for early legislation.

KEY FACTS

Area	338,000 sq km
Population	5.04 million
President	Martti Ahtisaari
Prime Minister	Finian Mäkelä
Currency	\$1=Fmk 5.71 £1=Fmk 3.81
Average exchange rate 1993	\$1=Fmk 4.83 £1=Fmk 3.87
Exchange rate 18 October 1994	

THE ECONOMY	1992	1993
Total GDP (Fmk bn)	475.7	478.7
Real GDP growth (%)	-3.8	-2.6
Components of GDP (%)		
Private consumption	53.5	52.4
Government consumption	20.8	18.1
Exports	26.5	31.8
Imports	-24.5	-25.2
Annual average % growth in		
Consumer prices (%)	2.9	2.2
Manuf. production (%)	2.6	4.7
Unemployment rate (%)	13.5	13.5
Share price index (%)	5.50	8.50
Govt. bond yield (%)	8.60	6.91
Money growth (M2)	-0.13	2.04
Reserves minus gold (\$bn)	-5.21	5.41
Trade		
Current account balance (\$bn)	-4.95	-0.98
Merchandise exports (\$bn)	23.98	23.45
Merchandise imports (\$bn)	21.19	18.05
Trade balance (\$bn)	2.79	5.40
Main trading partners (%)		
Germany	13.2	15.4
Sweden	11.1	10.2
UK	10.5	8.9
US	7.8	7.3
Russia	4.5	7.6
EU	46.9	47.2
EU*	17.0	19.0

(1) Current prices. (2) OECD standardised rate. (3) FT-A index. % change year-end. (4) End period. (5) 1993. Sources: IMF, EU, OECD, Datastream

The effect of the trend away from conglomerates on big companies

Diversity takes some odd shapes

glomerates, at least strangely-shaped groups with unlikely collections of interests. The following are three prominent examples:

● **Amer Group.** With annual turnover of around FM8bn, the group combines ownership of Wilson Sporting Goods, one of the world's top sports equipment labels, with concessions to sell Toyota, Citroën and Suzuki vehicles and make Philip Morris tobacco brands in Finland and a printing and publishing division.

The group was set up in the 1950s to manufacture American-style cigarettes for the Finnish market – hence the name Amer. But Mr Seppo Ahonen, the chief executive

brought in from Nokia two years ago, is steadily narrowing the group's focus down to sporting equipment and leisure products. Sporting goods already account for almost 50 per cent of group sales.

This year Amer's remaining interests in the paper industry are being sold off. Mr Ahonen, who announced a three-fold rise in pre-tax profits in the first eight months to FM135m, says he is ready to consider offers for all non-sporting goods operations, which are all profitable.

If they are sold, Amer will be a company whose dominant interest is a high-profile company involved in a highly competitive and marketing-

sensitive business based thousands of miles away in Chicago. But Mr Ahonen is undaunted. He sees advantages in being headquartered in Helsinki, guiding a business with worldwide sales. "I like the European way," he says. "I think we are prepared to give more time for long-term investments to develop than they are in America."

● **Huhtamäki.** Started by Finnish confectioner Heikki Huhtamäki in the 1920s, the group had grown to encompass more than 10 businesses areas in the early 1980s. Since then a pattern of restructuring has left Huhtamäki in three industries – confectionery, food packaging and pharmaceuticals.

Like Amer, annual sales stand around the FM8bn mark, with 41 per cent in North America where the Leaf business is the third largest

player in the non-chocolate confectionery market. Leaf accounts for more than 60 per cent of sales, followed by the Polarcup packaging division with 25 per cent and Leiras, a company focused on contractives, with 12 per cent. Group profits in the first eight months were FM309m on sales of FM5.6bn.

"We don't think of ourselves as a diversified company any more," says Mr Eero Aho, chief financial officer. "Generally speaking, we are a food company as confectionery is a branch of the food industry and Polarcup is a food service industry."

Huhtamäki does not make any attempt to pretend that there are great synergies between the divisions, however. And Mr Aho admits: "There is some kind of conglomerate discount in our share price, but it is difficult

to say how much."

But the group says it is happy with the shape of the company and has no plans for further rationalisation.

● **Metra.** In its present form, the group was founded in 1991 through the merger of two diversified groups, Wärtsilä and Lohja. Today it revolves around the Wärtsilä main businesses of diesel engines – in which it is a world leader – bathroom equipment and security systems.

After the merger, Metra, which last year had group sales of FM9.5bn, began a process of slimming down the newly-formed group. That included divestment of such diverse interests as Lohja Caravans, the largest supplier of caravans in the Nordic region, and Lohja building materials operations in the US.

This year a further big step was taken when agreement

was reached to merge Abloy Security, the group's locks and security systems unit, with the lock operations of Sweden's Securitas to form AssaAbloy, in which Metra will eventually have a 40 per cent holding.

The move will leave Metra heavily weighted towards Wärtsilä diesel, which in the first eight months of this year accounted for FM3.7bn out of Metra's total sales, including Abloy, of FM9.5bn. The diesel operations are widely spread around the globe and Wärtsilä is a market leader in diesel generators.

It sits oddly with Sanitec, the sanitaryware operation that remains Metra's second largest area of operations. But with sales and profits in the diesel division hit this year by project postponements and engine line development costs, Metra can argue that a simultaneous improvement in Sanitec's profitability is a valuable counter-balance, contributing FM195m in operating profits to the group's eight-month operating profit of FM413m – more than Wärtsilä.

Hugh Carnegie

Profile: NOKIA

Mobile phone success story

Finland has no other corporate success story to match Nokia. Europe's biggest manufacturer of mobile telephones has performed spectacularly over the last two years with explosive profits and sales growth driving a 15-fold rise in its share price.

The company now accounts for more than 25 per cent of the value of the Helsinki Stock Exchange. Such is the dominance that its market capitalisation at around FM50bn is greater than the combined value of the country's four big listed forestry groups: Repola, Kymmene, Enso-Gutzeit and Metsä-Serla. Foreigners have been particularly enthusiastic buyers of the shares and now hold more than 50 per cent of the company.

Two years ago, with Nokia's share price languishing at less than FM50 compared with a peak of more than FM700 this year, such a revival was far from predictable. At the time the group was heading for its second successive year in the red amid substantial losses from its troubled consumer electronics division.

Factors which have driven the recovery include surging worldwide demand for Nokia's cellular equipment and mobile phones as well as an internal reprogramming which has transformed the group from a sprawling conglomerate to a focused telecommunications company. Cost-cutting, the weak markka and a halting of the haemorrhage within consumer electronics have also helped.

The rapid growth in the world mobile telecommunications market has probably been the most important factor. "The two things which have helped us most have been the entry of new operators into cellular market and the shift from analogue to digital," says Mr Jorma Ollila, Nokia chief executive.

This year, for example, around 25m mobile phones are expected to be sold worldwide, well above last year's 14m. Nokia, which is the world's second largest mobile phone supplier after Motorola of the US, will manufacture around 5m phones, double last year's production, to achieve a 20 per

cent market share.

The outlook is no less positive. Mr Ollila forecasts that the world market for handsets will continue to increase by between 50 and 80 per cent for at least the next two years.

If growth rates like this materialise, the biggest constraint on the group could simply be its capacity to deliver. It has already had to turn away

A strategic focus has seen the group pull out of data, forestry and chemicals, while tyres may be sold off. The emphasis on telecoms is likely to continue

some orders. The group is tackling the problem by investing and taking on additional staff. It has recently expanded mobile phone capacity in the US and last month it announced a FM380m programme to increase phone and cellular network production at Salo in Finland.

The dominance of telecommunications within the group's business is increasing all the time. Partly this reflects the strategic focus which has seen the group pull out of such areas as data, forestry and chemicals. Partly it reflects the annual 50 per cent growth in the core telecom businesses, when the company's other remaining activities – consumer electronics, cable and machinery, tyres and power – are hardly growing at all.

There is little doubt that the emphasis on telecoms will continue. The trend will be reinforced by a likely disposal of the cable and machinery, tyre and power businesses if they fail to produce adequate cash flow. The group is already considering floating off most of its 80 per cent stake in Nokia Tyres.

By contrast, the company seems to intend on hanging onto its consumer electronics unit, which is finally within sight of profits after hefty losses and considerable restructuring over the last three years. Retaining the operation will assist its ambitions to build a presence in multimedia.

The group's confidence is reflected in the increasingly

global scale of its activities and its readiness to take on some of its toughest competitors in their home markets. In Japan, for example, the group talks of capturing a 25 per cent digital market share by 1996 despite tough competition from domestic manufacturers.

The going has been tougher in the US, where the company has been hampered by a rela-

tively low profile and a poor distribution system. But opportunities will increase in the US market with the planned auction of broadband licences next year.

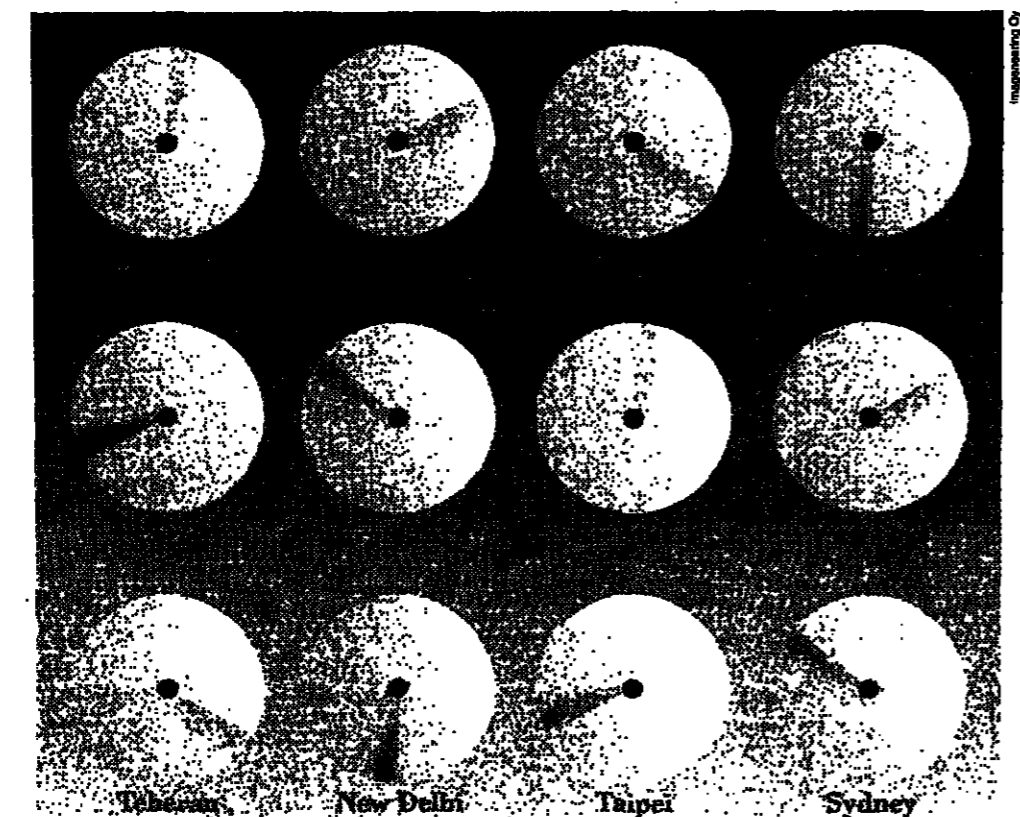
In any case, the group's US profile was lifted in the summer when it became the first Finnish company to list its shares on the New York Stock Exchange. This was after it had raised FM2.4bn in the largest international share issue ever made by a Finnish company.

The group's main problem now will be to meet the market's high expectations of its capacity for pleasant surprises was on display again recently when it announced a near-five-fold surge in pre-tax profits to FM2.9bn for the first eight months, comfortably ahead of market predictions. Net sales were FM18.2bn, a 40 per cent increase adjusted for currencies and restructuring.

One danger is that bigger competitors with greater resources will push Nokia aside through technical innovation. As analysts from Lehman brothers said recently: "Nokia operates in the world telecommunications market alongside significantly larger competitors... Many of these companies spend more in absolute terms on R & D than Nokia."

Another danger is that the group will simply not be able to manage its growth, becoming cumbersome and bureaucratic where until now it has been fast and flexible. This, for Mr Ollila, appears to be the greater threat and he has made the achievement of disciplined growth one of his main priorities.

Christopher Brown-Humes



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Profile: INVEST IN FINLAND BUREAU

A chance to catch up

Few people in Finland can have had more reason to celebrate the October 16 decision to join the European Union than Mr Nils-Christan Berg, head of the government's Invest in Finland Bureau, writes Hugh Carnegie.

The bureau is charged with attracting direct foreign investment to the country, so a referendum vote to stay outside the EU would have been a severe handicap to its work. Finland already lags far behind most of Europe's smaller peripheral countries in winning inward investment. Inclusion in the inner circle of the continent's top political and economic club is a vital step if Finland is to catch up.

"We have made several surveys outside Europe - notably in the US and Japan - and we can clearly see that for a country like Japan it is a must for us to be in the EU before companies even think about investing in Finland," says Mr Berg. "They want you to be inside the EU market. That is a fact and you cannot overcome it any other way except by joining."

Now that Finland is set to become an EU member from January 1 - barring unforeseen obstacles in parliament - the Invest in Finland Bureau can get on with its job with much greater assurance and confidence. It faces a formidable task.

The bureau was set up only in 1992, long after Ireland, Portugal and Scotland, for instance, had established sophisticated agencies to pursue foreign investment, armed with alluring inducements in the form of generous tax breaks, subsidies and other incentives.

Indeed, while such countries were attracting multinational corporations to their shores in the 1980s, Finland maintained barriers against foreign investment, requiring any foreign investor to gain government or, in some cases, parliamentary approval for the acquisition of more than 30 per cent of a Finnish company. The last of these restrictions was dropped as recently

as the beginning of 1993.

Big names such as Asea Brown Boveri, the Swiss/Swedish engineering giant, Sweden's Saab Automobile, Norway's Kvaerner and Britain's British-American Tobacco have established a presence in Finland, but the list is not long.

Mr Berg's mission is to make sure that the list now starts to grow. The extent to which he is successful will be an important element in restoring long-term growth to an economy deeply scarred by recession. At last Finland realises that it can no longer rely on protected home industries and a privileged trade

The bureau's sales pitch is that Finland is the hub of this new region

with a Soviet Union that no longer exists to sustain employment levels.

The Invest in Finland Bureau is not attempting to lure foreign investors with state incentives. Instead, it seeks to establish Finland as a centre for investment in what Mr Berg calls "New Northern Europe". Central to this concept is the geographical proximity and established trading links that Finland has with other industrialised Nordic countries to the west and with the newly emerging markets of the Baltic countries and Russia to the east.

The bureau describes New Northern Europe as a region of 80m people, including more than 40m in north-west Russia. The bureau's sales pitch is that Finland has all the geographic, economic, legal and cultural attributes to be the hub of this region as its new markets take off. The most important of these could well be St Petersburg, with its population of 8m, just 150km across the Finnish border.

"Finland is the only place that can reach and deliver throughout this region within 24 hours," says Mr Berg.

The obvious potential weakness in this argument is that the concept may make more

sense in theory than in reality as western companies either prefer to invest directly in Russia and the Baltics, or may shy away altogether from such uncertain and unstable countries.

But Mr Berg insists that Finland is already becoming a popular stepping stone for doing business in Russia. A number of western companies operating in St Petersburg use Finland for forwarding mail and as a telecommunications pivot. The bureau says western investors and Russians alike can benefit from setting up joint ventures in Finland, where the legal structures lacking in Russia are in place and transparency is assured.

Mr Berg says using Finland as a base can help speed up approval of projects from financial backers such as the European Bank of Reconstruction and Development, which worry about the security of such investments. Above all, Finland believes it can offer the benefit of experience and contacts in Russia gained by Finnish companies. "Finland has always traded with Russia - long before the creation of the Soviet Union," says Mr Berg. "In Czarist times, when we were ruled by Russia, Finland was a conduit for trade with the west."

He cites a joint venture project involving Conoco of the US in oil production in Arak, western Siberia. The US\$400m project was in danger of falling behind schedule last year because Conoco ran into problems in building the infrastructure of roads, dwellings and rigs. The Finnish contractor YIT was brought in to help and got the project back on schedule.

But to foster more such success stories, the Invest in Finland Bureau must first reverse the old image Finland has of being hostile to foreign investors. Being a member of the EU will help. But Mr Berg has a big marketing task ahead of him. As one of the bureau's own brochures candidly admits: "Not many people know... the place to invest in now is Finland."

Finland's battered banks are still struggling to overcome the huge credit losses which engulfed them two years ago. But though the path to recovery is long and hard, the banks are sticking to their forecasts of a return to profit next year or in 1996 at the latest.

Overall, the Finnish Bankers' Association expects the sector's total losses in 1994 to be about two-thirds of the FM13bn deficit run up in 1993 - which was in turn a sharp improvement on the worst year, 1992, when losses exceeded FM20bn.

This year has been a frustrating one. In the early months, there was a burst of optimism as interest rates tumbled and Finland's economy began to emerge from severe recession. But a jump in long-term interest rates over the summer, the resultant turbulence in bond markets and additional credit losses slowed down the banks' recovery process.

Finland's banks fell victims to a wicked combination of circumstances in the early 1990s. The recession, which hit elsewhere in Europe, was deepened by the loss of the country's big trade with the Soviet Union. The slump exploded a frantic credit boom

The banks are still burdened by credit losses - and vulnerable to unexpected twists in the economy

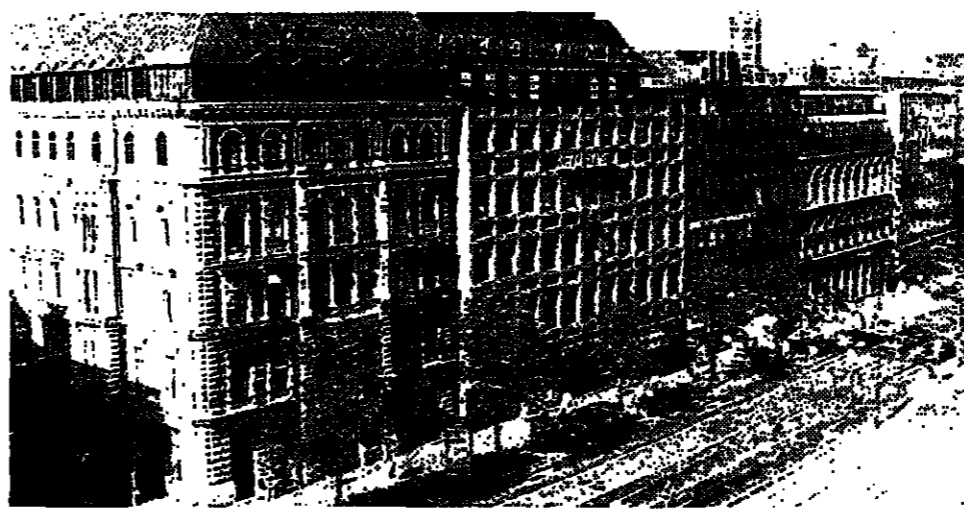
which had been fuelled by financial deregulation. As interest rates shot up and asset values collapsed, hundreds of companies were forced into bankruptcy, particularly in real estate, construction, trading and tourism.

By the end of 1993, the banks as a whole had non-performing assets of FM53bn, only slightly less than a year earlier. This was after write-offs of FM16.5bn - equivalent to 5.2 per cent of average balance sheets. In 1992, the banks had been forced to write off FM22bn.

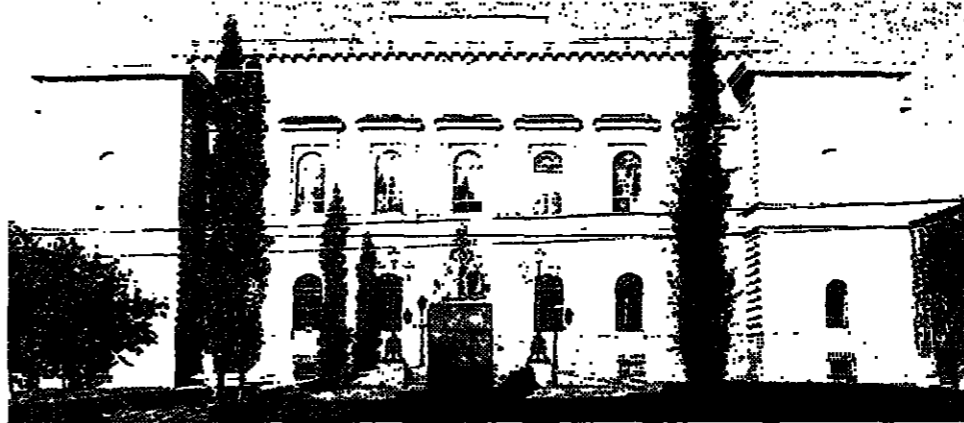
Most leading figures in the banking sector say the worst is now over. Mr Pertti Voutilainen, chairman of Kansallisoikeus-Pankki, the leading commercial bank, summed up the position facing his bank: "I think we have come to the situation where we know where we stand. The

Hugh Carnegie reports on the banking sector

The bad news may be over



The Union Bank of Finland in Helsinki and (below) the central bank



worst risks have already been written off, so when the economy gets better - and it has turned around - that will help us to return to profit."

But KOP's own difficulties this year highlight how heavily the banks are still burdened by credit losses - and how vulnerable they are to unexpected twists in the economy.

KOP announced a new bad loan charge of FM800m in its eight-month results, triggered by problems in the construction company Puolimatka. This pushed credit losses in the period up to FM1.67bn, not far below last year's loss at the same stage of FM1.96bn. Meanwhile, a FM150m loss in

bond trading helped push net income from financial operations down 7 per cent to FM1.48bn.

Overall, KOP's operating losses in the first eight months rose to FM1.3bn from FM988m. The bank has been forced into a further round of fundraising to strengthen a capital base drained far beyond the expectations of most shareholders. It has launched a FM2bn share issue and the sale of FM1bn in assets this autumn, on top of share issues last year worth FM2bn and hefty bonds issues.

In the case of Unitas, the main rival to KOP, credit losses rose by FM137m in the first eight months to FM1.82bn compared with the same period last year, due mainly to the collapse earlier in the year of two companies - a construction group called Haka and Eka, a retail and wholesale group.

But, like KOP, Unitas insists that all the bad news is now known and accounted for. The bank says credit losses in the last four months of the year will be sufficiently reduced to make overall loan losses for the year less than those of last year. Unitas expects to halve last year's overall pre-tax loss of FM2.57bn and hopes to break even in 1995. KOP still forecasts a profit in 1995.

Although borrowing demand remains low in Finland, Mr Vesa Vainio, the president of Unitas, believes the country's return to significant growth - GNP is expected to rise by 5 per cent next year - and its entry into the European Union will trigger more investment. "We are still on the track we estimated," says Mr Vainio. "I am quite confident the worst is over."

Part of the dogged optimism shown by the banks is due to their belief that a significant post-crisis restructuring of the bank sector will work to their benefit. At the end of 1993, the government sold off the savings banks of Finland in four equal parts to KOP, Unitas, state-owned Postipankki and Okobank, the umbrella bank of the country's big co-operative bank sector.

The SBF and Skopbank, which acted as a central bank for the savings banks, were taken over by the state at the height of the loan loss crisis and swallowed most of the FM60bn that the government was forced to pledge to keep the banking system afloat. After transferring FM40bn in non-performing SBF assets to Arsenal, a specially created state "bad bank", the government parcelled out the rest of the FM60bn in SBF

The banks believe that a significant post-crisis restructuring of the sector will work to their benefit

assets to the four main players. The effect has been a significant boost in customer base and assets for the buyers, combined with a narrowing of competition. Mr Voutilainen says this has helped restore interest rate spreads which previously were extremely tight. "The competition situation is much sounder - it is causing less damage to the banks," he says.

Certainly, the rationalisation has reinforced an overdue trend to slim down the banking sector. The recipient banks were free to close SBF branches they acquired and in many cases have done so. The Bankers Association says the numbers now employed in banking have fallen to 37,000 from 63,000 in 1989 and will fall further to around 30,000. Meanwhile, the number of bank branches has contracted by almost 900 to 2,500.

story



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 International Secondary Placing of shares in Repola FIM 1,500 million Co-Lead Manager October 1993	 Public Offer for Nobel Industries AB SEK 14,340 million Adviser to Akzo February 1994	 New Issue FIM 240 million International Secondary Placing FIM 140 million Co-Lead Manager March 1994
 Convertible Subordinated Bond Issue FIM 170 million Co-Lead Manager May 1994	 Rights Issue NOK 1,340 million Co-Manager May 1994	 Convertible Bond Issue DKK 385 million Lead Manager and Underwriter June 1994
 Investment of SAS Service Partner Lundin (aircraft) to Swissair Adviser to SAS August 1994	 Public Offer for The ESAB GROUP SEK 1,380 million Adviser to Charter August 1994	 Public Offer for YIT-Kiinteistö Oy FIM 110 million Adviser to YIT-Yhtymä October 1994

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FINLAND 4

Profile: PAAVO LIPPONEN

Liberal who may be next prime minister

If the opinion polls prove correct, Finland's next prime minister will be Mr Paavo Lipponen, the personable and pragmatic leader of the Social Democratic party (SDP).

The Social Democrats were the losers in the last general election in 1991, winning just 22 per cent of the national vote. The government was formed by the Centre party led by Mr Esko Aho, now prime minister, which surged ahead to win 25 per cent of the vote and forged a coalition with the Conservative party - which had been in coalition with the SDP - and the small Swedish People's party and the Christian League.

But under the leadership of Mr Lipponen, who took over from Mr Ulf Sundqvist as party leader last year, the SDP has consolidated a rebound in the polls which has shown the party winning well over 30 per cent support throughout this year.

With the incumbent government, suffering in popularity because of the deep recession and high unemployment, the Social Democrats are now widely expected to lead the new government after the election due in March next year. At this stage, the party is reluctant to speculate on the shape of an SDP-led coalition - which could include either or both the Centre and Conservative parties. But the one certainty is that it would be headed by Mr Lipponen.

A political scientist and journalist by profession, 53-year old Mr Lipponen is a Social Democrat who, like many of his left-of-centre colleagues in Europe, has moved his party significantly away from old-style western European socialism to embrace market reforms to achieve a "citizen's society". A keen advocate of Finnish membership of the European Union, he summed up his position in an article published during the EU referendum campaign. "An efficient market economy adhering within the con-

text of the EU to the basic values of Nordic welfare states will produce a better society of citizens in Finland," he wrote.

In an interview for this survey, Mr Lipponen explained his approach further. "I am a liberal in the sense that I believe people have really suffered because of a lack of competition. We need a real paradigm change. Ours has been an economy of big companies, big co-operatives, big banks, big wholesale companies and, if you like, big government. There hasn't been a



Paavo Lipponen: moved party from socialism to market reforms

role for a citizen's society."

His remedy for unemployment, the country's biggest political and social problem, is therefore unequivocally reformist. He readily accepts that his aim is to foster a more entrepreneurial climate in Finland. "Yes, absolutely," he says. "It is a question of getting unemployment down. The public sector cannot employ more people and the export sector is already efficient. So it is mainly in the small service companies that future employment will come. We have to get more flexibility and reduce labour costs - and social security costs."

But if Mr Lipponen's message contains elements more familiar from the right-of-centre in recent years, he still offers a distinct policy change from the present government. He is especially critical of the coalition's record on unemployment, saying the failure

to provide training schemes for more than one-fifth of the almost 500,000 unemployed has been a "waste of human capital".

He attacks the government's protection of Finland's highly subsidised farmers and the maintenance of subsidies to industry - especially the big and once again profitable forestry industry. These are areas where he believes savings can be made to help trim Finland's budget deficit and control a state debt set to reach the equivalent of 70 per cent of gross domestic policy next year.

His approach is also to defend the basic structure of the country's welfare system which, like those of neighbouring Sweden and Norway, far exceeds most in Europe in the extent of benefits it offers. His intention is to carry vital interest groups such as the trade unions with him when it comes to reforms by involving them in the changes. "I'm sure the elected members of the trade unions know what is needed. It is just that they need to feel the policies are fair and just."

As prime minister, Mr Lipponen would play a key role - along with President Martti Ahtisaari - in framing Finland's positions in the EU's vital 1996 Intergovernmental Conference on the future shape of the union. A former head of the Finnish Institute of International Affairs, he is at ease - but cautious - in discussing such tricky topics. "Finland should not take any dogmatic line in the debate between the federalists and the anti-federalists. That way we would lose our influence," he says. "European Monetary Union has to come sooner or later and if it comes you need greater political integration. But there is a need to guarantee the influence of national parliaments. Subsidiarity should be made to work."

Hugh Carnegie

Heavily protected and generously subsidised for years, Finnish agriculture has looked ripe for a shake-up for a long time. The crunch will finally come on January 1 with European Union membership.

Producer prices will fall by as much as 50 per cent in an overnight alignment with European levels. There will be compensation, but average incomes will still fall by at least 10 per cent. In the longer term, as transitional payments are phased out, the pain will increase, threatening a big wave of restructuring in three to five years' time.

With this sort of future ahead, it is not surprising that farmers were at the heart of the campaign against Finnish EU membership. Their economic argument was relatively weak - after all, farmers account for only 7 per cent of the working population and as little as 2.5 per cent of gross domestic product. What counted far more were the psychological and political factors.

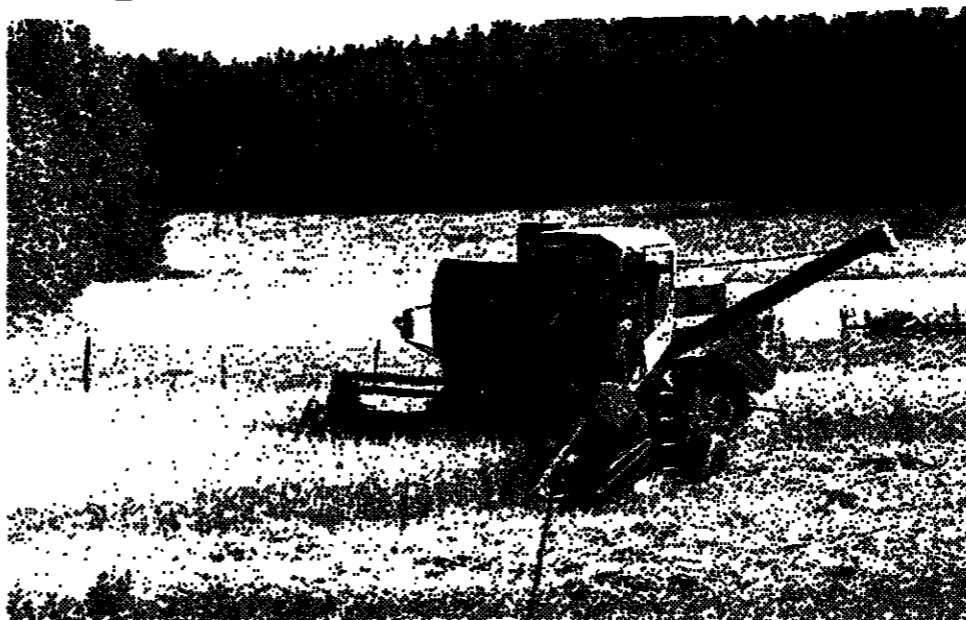
Psychologically, the farmers benefited from the Finnish population's strong attachment to the countryside - 35 per cent of the country's inhabitants still live in rural areas - and a security-related reluctance to see large areas of the country being depopulated. Politically, they were helped by the fact that the Centre party, the dominant power in the centre-right coalition government, has traditionally drawn much of its support from rural areas.

The irony is that despite the importance Finland gave to agriculture in its EU negotiations - no other issue received greater emphasis - the farmers ended up getting a deal which even EU supporters felt could have been better. The Finns complain that this was partly because neighbouring Sweden, which radically overhauled its farm support system in 1990, did not make an issue out of agriculture in its own EU accession talks.

Finland's settlement allows it to provide farming support over a five-year transitional period in return for accepting immediate price alignment. Next year's aid will be worth around Fm5.65bn, Fm1.8bn less than would be needed to make up the entire income shortfall. The immediate adjustment to EU prices, together with the scrapping of import controls, is one of the main grievances of

Christopher Brown-Humes on the likely impact of joining Europe

Agriculture faces shake-up



Farming in the countryside near Salo

Centre party is confident of EU backing. But, acknowledging the uncertainty, he says his "top priority is to ensure the national support measures are applied in January".

The transitional support measures should cushion farmers from the worst effects of the abrupt changes, at least initially. However, life for farmers in the south of the country could become very much tougher towards the end of the transitional period if Finland cannot grant them support under article 141 of the commission's code covering serious economic hardship. This has still to be negotiated.

In any case, it is hard to believe there would not have been a clampdown on agricultural support, even if Finland had remained outside the EU. Many feel that farmers have been cosseted at the taxpayer's expense for too long and they will be glad to see food prices fall. Domestic budgetary pressures would almost certainly have forced the issue - sooner rather than later, if Finland had rejected EU membership and the farmers were blamed.

The point is that everyone expects the number of farms to shrink as the sector consolidates towards the end of the decade. Mr Pesälä says he expects the number of farms to fall to 70,000 within 10 years from 120,000 today, at the same time as the average farm size rises from 20 to 30 hectares. He hopes those who stay the course will be able to compensate for the drop in their incomes through lower costs and advantages of scale.

from either category is 15 per cent of the country in the south, where most of the country's cereal and vegetable production is based.

According to Mr Antti Haavisto, MTK director of trade policy, the designations are completely arbitrary. "Neither line has any justification in terms of agricultural conditions. It's a lottery," he argues.

The situation is unfair, say the Finns, because thousands of farms in more productive areas of the EU further south are treated more generously since they are part of LFAs. The MTK says a farm in Schleswig-Holstein in

Germany, with an average yield of 6.8 tonnes per hectare, could end up getting three times the support available to a farmer in southern Finland, where the yield is 3.1 tonnes.

The final grievance is the uncertainty that still remains. Even though the overall sums have been agreed and a general payment mechanism outlined, it is still not clear how much individual farmers will receive and when. Part of the reason for the delay is that the package has to be approved by the European Commission. If it is rejected, the farmers' frustration will only grow further.

Mr Mikko Pesälä, agriculture minister and a member of the

Nobody cares if the country relies on its forests when things go well

Pulp and paper near peak

The fortunes of the Finnish economy are inextricably linked to the health of the country's pulp and paper sector. It is no accident that both are pulling strongly out of a slump at the same time. Forestry accounts for 36 per cent of Finnish exports and its success has done much to promote the country's export-driven revival over the past two years.

This overdependence on one industry is widely acknowledged but critics find it harder to make their case when things are going well. And, right now, things are going well.

In 1994 the Finnish pulp and paper sector will produce total profits of about Fm5bn - a massive improvement on last year's break-even level. At the eight-month stage the country's four big quoted forestry groups, Repola, Kymmene, Enso-Gutzeit and Metsä-Serla, produced combined pre-tax profits of Fm2.9bn, compared with a loss of Fm64m in the same 1993 period.

Although combined operating profits at Fm5.52bn were higher than Fm4.49bn in 1993, the major component of the improvement has been a reduction in financial costs. Debts are lower, average interest rates are down, and there have not been any big currency losses.

At the operating level, a number of conflicting influences are at work. On the positive side, demand has risen strongly, driving up operating rates, and prices are increasing across all product lines. On the negative side, there has been a significant strengthening of the markka and wood and waste paper costs have risen sharply.

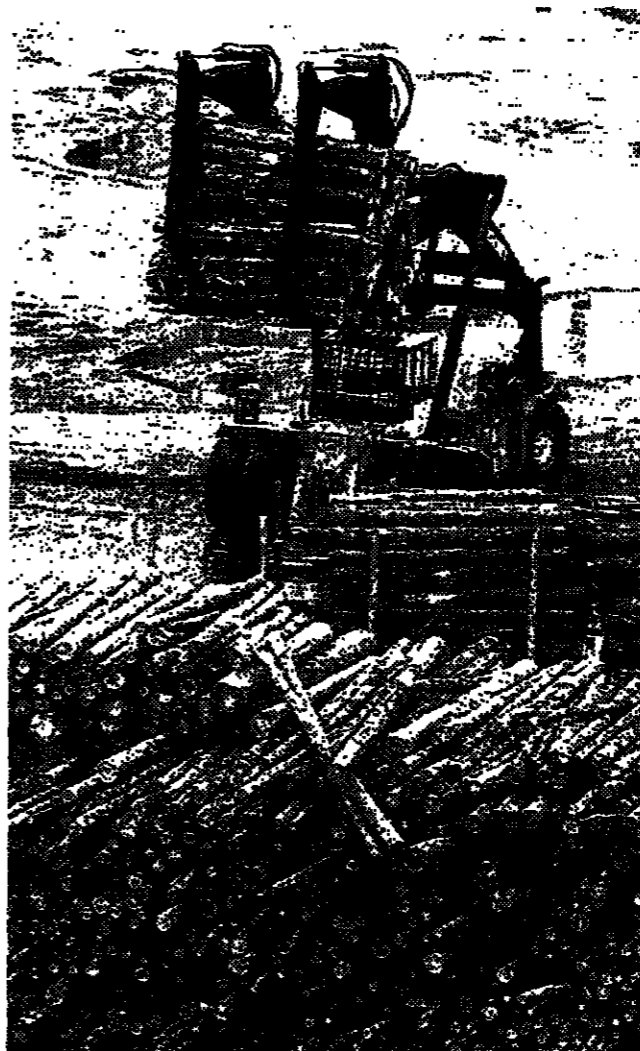
Pulp and fine paper producers will undoubtedly benefit, with pulp prices up 80 per cent and fine paper prices around 50 per cent higher. But in other product lines - publication papers, for example - the stronger markka and higher costs will outweigh the impact of increased demand and prices, leaving earnings in markka terms lower than in 1993.

Even so, there is no doubt that the pulp and paper sector is on the way to its next cyclical peak. Finland with its modern machines, its value-added emphasis, its stringent cost-cutting during the downturn and its still weak currency, is well positioned to benefit.

Mr Jari Kohler, head of the Finnish forest industries federation, cautions against over-optimism, saying profits this year will still fall short of the Fm7bn level which he calls "normal". Past experience shows that gains can easily be squandered, he warns.

It is a question both of costs and strategy. Can companies keep wood costs down? Can they keep wages down? Will they restrict investment?

The 1991-92 downturn in the Finnish forestry sector was undoubtedly exacerbated by a huge corporate investment spree in the late 1980s which



The Kymi paper mill at Kuusankoski, outside Helsinki

(as it has in the past) simply to rescue its forestry sector.

There is, on the other hand, a strong chance that expansion will come through acquisition rather than investment. Enso-Gutzeit has just agreed to buy a 35 per cent stake in Veitsiluoto, the country's fifth largest pulp and paper group, for Fm1.5bn, in a move which significantly strengthens its operations in fine papers and light-weight coated (LWC) magazine paper.

The move in effect involves a switching of assets between one arm of the state and another as the state owns 91 per cent of Veitsiluoto and 52 per cent of the votes in Enso. Logic suggests Enso will acquire the state's remaining stake in Veitsiluoto as and when the government decides to sell.

A much bigger merger involving Finland's two biggest forestry groups, United Paper Mills (the main unit in Repola) and Kymmene, was almost clinched during the summer. This would have created a company as big as Stora, the Swedish group which is currently Europe's largest pulp and paper producer. The plan is understood to have foundered because Kymmene's main owners were unhappy with the valuation placed on the company. Rumours have since circulated that the deal might be revived, although there have also been suggestions that the two companies are seeking other partners.

A big question will be whether Finnish groups seek to expand at home or abroad. Already 28 per cent of the forestry industry's production capacity is based abroad - most of it in Europe near the big markets and sources of recycled material. There was always a danger that more investments would have been directed towards Europe if the country had voted to stay outside the EU.

Christopher Brown-Humes

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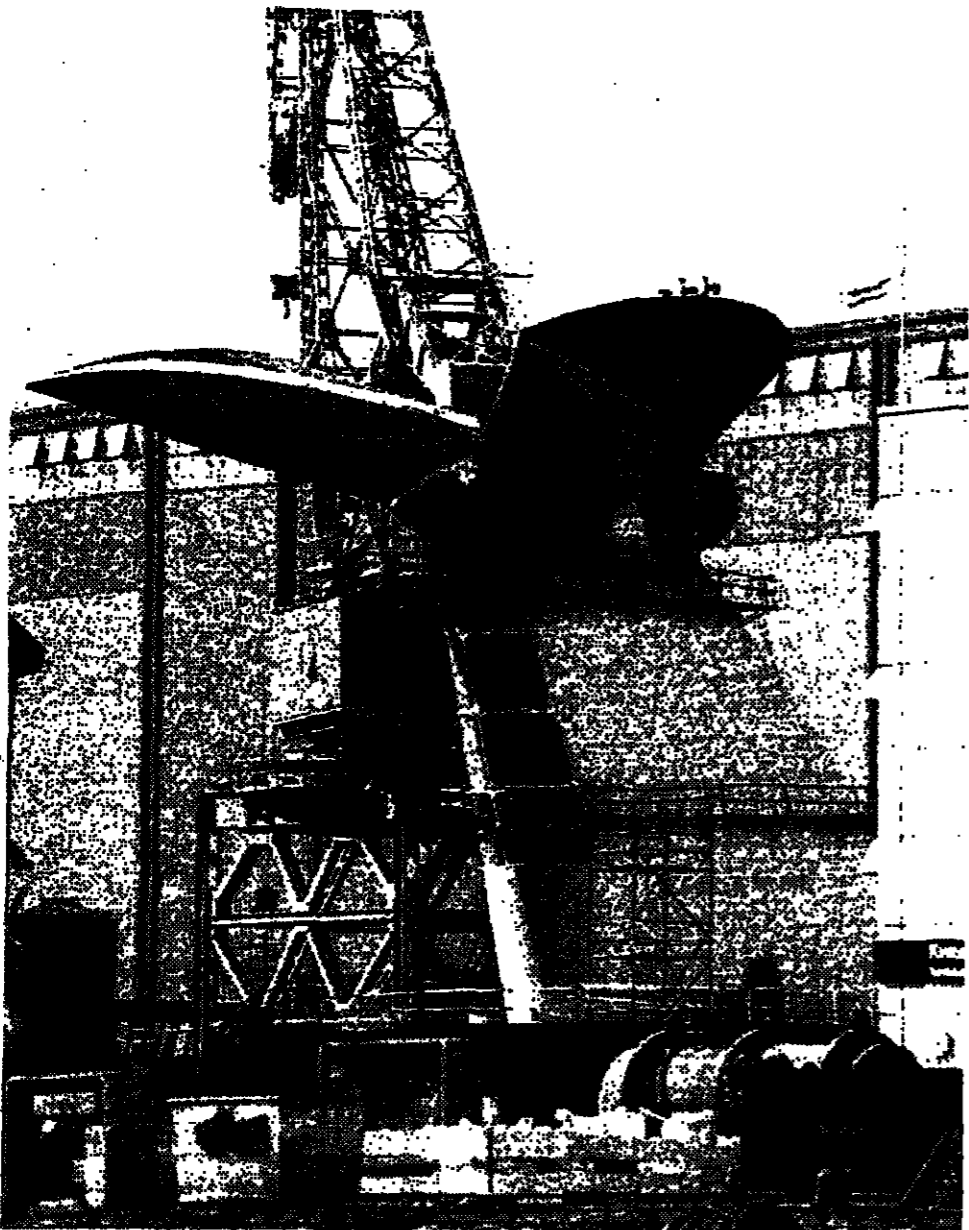
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مكتبة النخيل

Profile: MASA-YARDS

Specialist shuns subsidies



Masa-Yards concentrates on building a strong position in niche areas

Tony Andrews

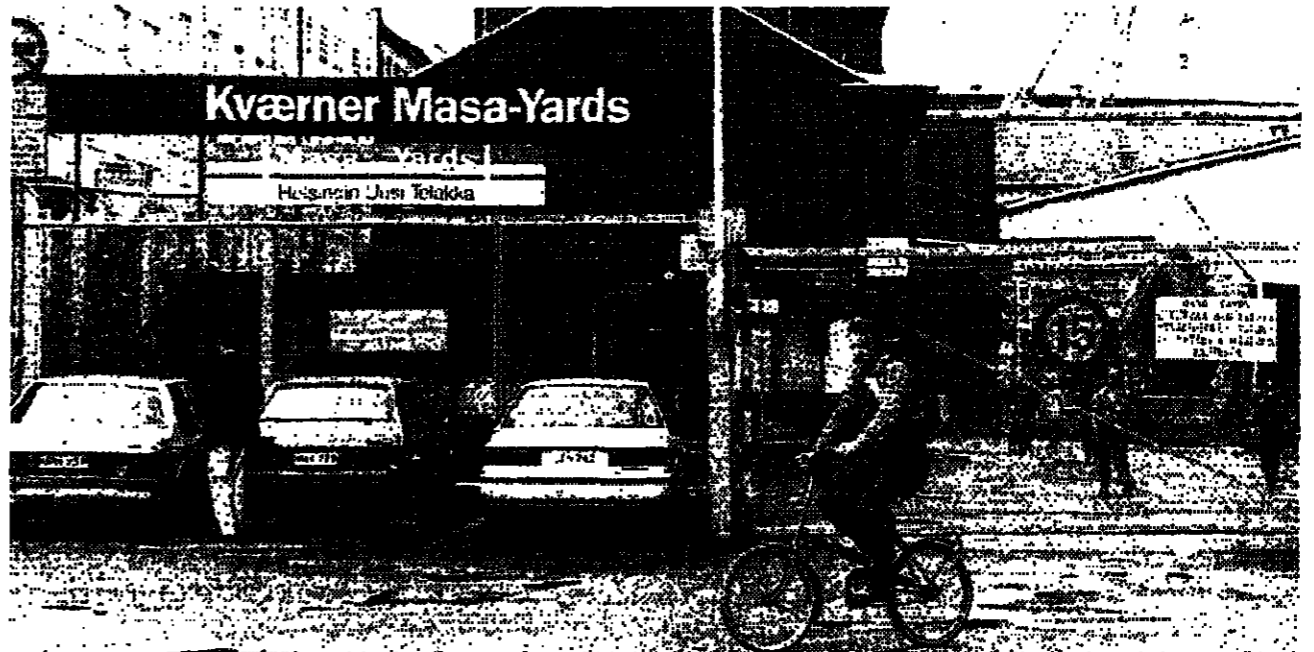
There was a moment in early 1993 when Mr Martin Saarikangas, president of Masa-Yards, took on the status of national hero.

It was the day that Masa clinched a \$1bn contract to build four sophisticated liquefied natural gas carriers for the Abu Dhabi National Oil Corporation, beating off intense competition from Japanese and European yards. Hailed as Finland's biggest ever export order, its importance to the country at the time could hardly have been greater, with the economy stuck deep in recession and other industry stalwarts, such as the forestry companies and Nokia, apparently still not on the path to recovery. The stock market celebrated and tabloid newspapers suggested Mr Saarikangas should run for the presidency.

The achievement was all the more remarkable because only a few years earlier the yard had almost gone out of business with the bankruptcy of its former owner, Wärtsilä Marine, in 1989. The Norwegian group, Kvaerner, eventually came to the rescue, buying the yard for NKr700m in March 1991.

The purchaser is unlikely to have had any regrets about its move, given the spectacular revival of Masa-Yards in the past three years. Its order book has more than doubled to Fm1.5bn, providing work for its 4,700 employees - at yards in Helsinki and Turku - until the end of 1997.

Finland, with generally high wage costs, is not a natural home for shipbuilding and it is therefore something of a surprise to find one of Europe's biggest shipyards located there. Masa has managed to be



Productivity gains have contributed to Masa-Yards' success. As its workload has grown, the company has increased sub-contracting

Tony Andrews

successful, even without the subsidies enjoyed by some of its competitors, because it has concentrated on building up a strong position in a few niche, technically-sophisticated areas.

Take cruise ships, for example. Here, the group has built up a 25 per cent world market share through orders from leading operators such as Carnival Cruise and Royal Caribbean Cruise Line. The company currently has seven cruise ships on order: two each from Carnival and RCCL, two from the German operator DSR and one from the Japanese group NYK.

It has been a good industry for Masa to specialise in, given the average 10 per cent a year expansion of the cruise market over the past 10 years. Mr Saarikangas is confident that the trend will continue. "The Caribbean has been the main focus of cruise market development so far, there is a great deal of potential in other parts of the world," he says.

LNG vessels are the company's other big speciality, with



Martin Saarikangas, alarmed at strengthening of the markka

the Abu Dhabi order alone giving it a 20 per cent market share. It has also penetrated other niches including cable layers and ice-breakers, and hopes one day to build a presence in the Arctic market for vessels trading in the icy waters of northern Russia and Canada.

"We are not series-building

ships like a lot of yards," stresses Mr Saarikangas. "Our vessels are tailor-made."

The group's results would seem to vindicate the strategy. Last year it achieved a Fm386.9m profit on turnover of Fm2.76bn, the best figures in its history. Return on investment has been around 25 per cent a year for each of the last three years.

Mr Saarikangas dismisses suggestions that the yard's success has hinged on the hefty devaluation of the Finnish markka since 1991. "All our results until now have been based on orders placed before the devaluation," he states.

Having said that, the weak markka was crucial to the yard's success in winning the LNG contract and Mr Saarikangas is alarmed at the recent strengthening of the currency. "I am looking forward to the time when the markka reaches its proper level, which is weaker than today," he says.

Productivity improvements have been the other factor in the group's success. Despite

the big expansion in the Masa-Yards order books over the past few years, the company employs 1,800 fewer people today than when Mr Saarikangas took over. Although numbers have risen slightly from their lowest point, the company's main response to its greater workload has been to increase sub-contracting.

The impact of EU membership on the yard is likely to be limited. However, it will gain access to EU research and development funds, and perhaps more importantly, it will get a say in the community's shipbuilding policy.

Mr Saarikangas says the yard will certainly make its voice heard if competitors are unduly favoured by subsidies and other state support. "I consider all kinds of subsidy unfair. You are not allowed to have drugs in sport. Why should you have them in industry? I would like to have a doping committee in industry," he adds.

Christopher Brown-Humes

Elections may stall pace of state asset sales

Stakes cut gradually

The momentum of the Finnish privatisation programme - stalled for so long by the country's deep recession - has increased sharply in the last 12 months.

The government has sold out stakes in five companies, raising a total of Fm7.4bn both for itself and the companies concerned. The question is whether the pace of the programme will be maintained after next March's general elections when the Social Democrats look likely to return to power.

The Finnish privatisation programme has been a cautious one. Indeed, privatisation is probably too strong a word for a process that is better characterised as a broadening of ownership. The government has chosen to reduce its stake gradually in a number of the country's biggest industrial groups and, in most cases, it still retains more than 50 per cent of the shares.

The companies themselves have been the main beneficia-

ries of the process, garnering Fm5.84bn out of the proceeds to strengthen their recession and debt-weakened balance sheets. The government could have done with the funds to reduce its budget deficit, but it is precisely because of budget constraints that it has not been able to service the risk capital

Privatisation is probably too strong a word as the state retains more than 50 per cent of the shares

needs of the companies itself. Over the past 12 months, stakes have been sold in Outokumpu, the mining and metals group; Rautaruukki, the steel producer; Valmet, the paper machinery manufacturer; Kemira, the chemicals group; and Veitsiluoto, the pulp and paper group.

In the case of Outokumpu, Rautaruukki and Valmet, which were already listed companies, the targeted buyers

have been domestic and international institutions. With Veitsiluoto, on the other hand, an industry buyer was preferred, which resulted in Enso-Gutzeit securing a 35 per cent stake for Fm1.5bn. Kemira was introduced via an initial public offering which raised Fm1.14bn and cut state ownership to 75 per cent.

The government is free to sell more shares in all five companies before it reaches the limits of its parliamentary authorisation. Outokumpu is the only member of the group where state ownership has already fallen below 50 per cent.

Altogether, there are some 12 groups on the government's privatisation list, including Neste, the oil and petrochemicals group; Enso-Gutzeit, the pulp and paper group; Finnair, the national airline; and Imatran Voima, the big energy company.

Some commentators believe

Continued on next page

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FINLAND 6

Christopher Brown-Humes on the country's relationship with Russia

Neighbour that always wins

"Finland has fought many wars with Russia and it has come second every time." Finns will joke when discussing their sensitive relationship with their giant eastern neighbour.

The most recent confrontation was during the second world war. On that occasion, the country achieved one of its better results, managing to preserve its independence despite the sacrifice of a tenth of its territory.

The sensitivity in the relationship is hardly surprising. Finland was ruled by Russia for more than 100 years until 1917. During the cold war it was forced to adopt a stance of strict neutrality to avoid provoking Moscow. More recently it has had to endure the taunts of Vladimir Zhirinovskiy, the Russian nationalist, and even talk that a starving Russian population was about to flock over its borders in search of a better life. Even today, instability in Russia almost automatically provokes a sell-off on the Helsinki stock exchange.

Against this background, it is not surprising that Finland's desire to anchor itself firmly in the western camp was one of the main reasons that its electorate voted to join the European Union by such a clear margin on October 16. In the back of many people's minds was that the thought that Finland would gain more security

without any new military alliances or commitments.

The irony is that Finland would probably not have got its chance to apply for EU membership without the momentous changes which have swept through Russia in the past five years. Its ability to chart a more independent course came with the ending of the cold war and the collapse of the former Soviet Union. Mr Mikhail Gorbachev, the former Soviet president, signalled in 1990 that Finland was able to

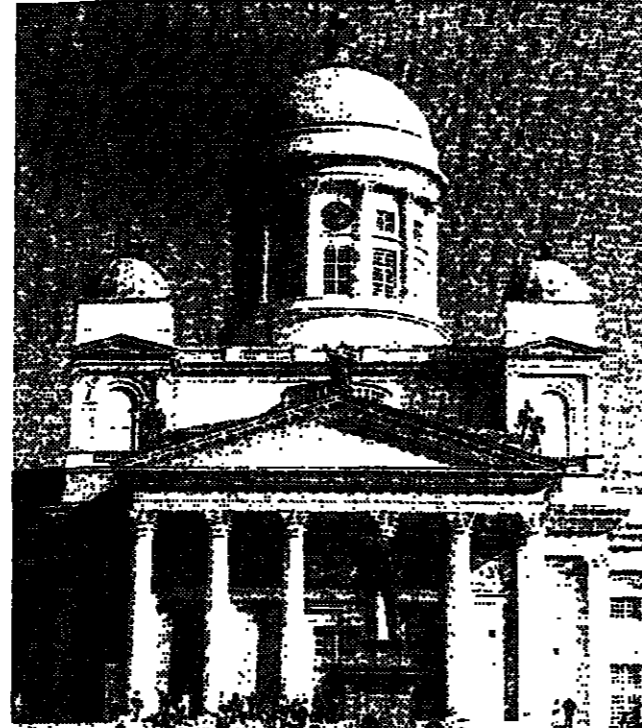
Instability in Russia almost automatically causes a sell-off on the Helsinki stock exchange

go its own way. Then, in mid-1991 Sweden applied for EU membership. When Finland duly followed suit in March 1992, the move passed almost unnoticed in Russia.

In the run-up to October's referendum, both supporters and opponents of EU membership used the Russian issue to back their argument.

Mr Esko Aho, the prime minister, said: "Finland will be able to be very active and play a very important role in programmes the European Union has for assisting Russia."

"My impression is that on the Russian side they see the membership of Finland as an

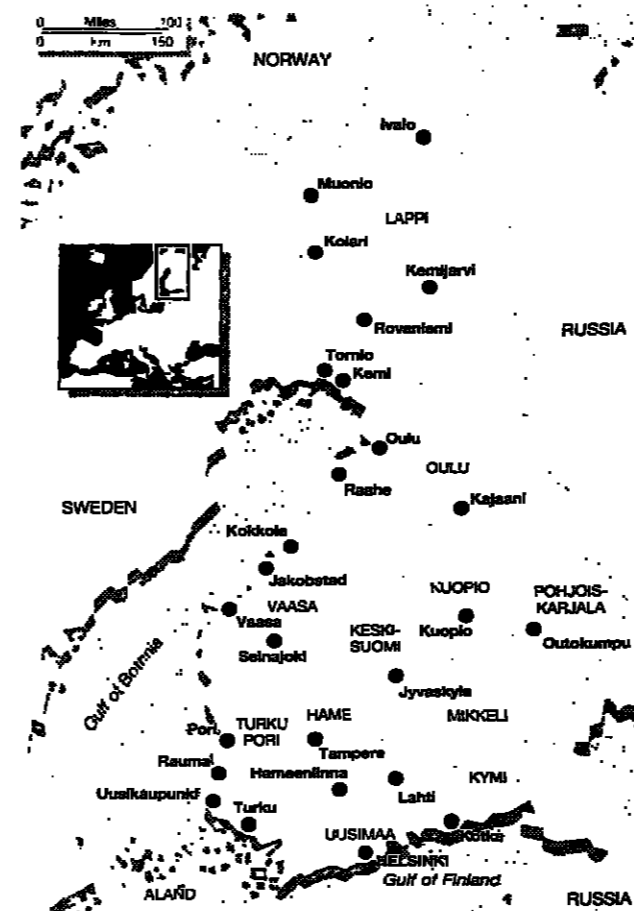


The Lutheran Cathedral, a landmark in the centre of Helsinki. (Toni Anders)

opportunity also for Russia because of the fact that resources for co-operation will be increased."

Opponents are not so sure. They believe Finland will slowly be drawn through EU membership into less neutral

defence structures, which could in a future east-west confrontation put the country in the front line. Mr Risto Volanen, a member of the "No" camp, says: "I am worried we are putting ourselves on the chessboard in such a way that



we are not in control of the moves that are made."

The aim is still to hang on to the spirit, if not the fact, of neutrality. Thus, Finland has joined the Partnership for Peace, while stressing this is not a staging post on the way

to full membership of Nato. As for the Western European Union, the country says it will seek observer status but has declined to give any commitment beyond that.

This shows a continuation of the pragmatic stance which

Finns have adopted in their Russian dealings for most of this century. It is an approach that has benefited them in many ways.

The best example has been trade. During the cold war, Finland had a privileged trading relationship with the Soviet Union. Under a clearing system arrangement, agreed at government level and implemented through five-year plans, the country built up a dangerously high dependence on its eastern neighbour. Most of its oil and gas imports came from the Soviet Union; in exchange it supplied ships, machinery and equipment, chemicals and consumer goods.

At its peak in the mid-1980s, the Soviet Union accounted for

It remains open to doubt whether Finland can market itself as the "Gateway to Russia"

26 per cent of Finland's trade. The total fell during the late 1980s, but even so the Finnish economy felt a massive shock when the clearing system was abandoned - at Soviet insistence - at the beginning of 1991. The blow deepened Finland's three-year recession between 1991 and 1993 at a time when it was already reeling from the consequences of 1980s over-heating and a downturn in the international economic cycle.

Finnish-Soviet trade, having been worth FM36.6bn in 1983, fell to just FM9.7bn in 1992. However, there are already clear signs of recovery. In 1993

the trade was worth FM13.5bn and this year it is predicted to reach FM18bn, or 7.2 per cent of the country's total. This makes Russia Finland's fifth largest trading partner.

But the structure of the trade today is totally different. Having been centralised and largely the domain of Finland's big exporters, the picture is now more fragmented and thousands of Finnish companies are involved. Moreover, the type of trade has changed. Today, Finland is exporting (or re-exporting) far more consumer goods than in the past. Trade is also more complicated due to the absence of a sound legal and banking infrastructure on the Russian side.

Finland is confident it will benefit in the long term from its geographical proximity to Russia and, in particular, its closeness to St Petersburg where Finnish companies are already among the most active foreign investors. The Finnish port industry has already benefited from congestion and obsolete facilities on the Russian side, helped by the fact that the two countries share a common rail gauge.

Whether Finland can successfully market itself more broadly as the "Gateway to Russia" and attract foreign investment on the back of it remains open to doubt. Finland has more experience of dealing with Russia than its western counterparts. But its success derives from a different era and different conditions when different people were in charge. In many respects, it is having to start afresh, just like everyone else, in its dealings with the "new" Russia.

Finnish design should not be ignored, though it is out of the limelight

A gift for order, serenity and logic

The glory days of Finnish design are, for the moment at least, over. Way back in the 1950s and 1960s, anybody who knew anything at all about design knew that the Finns were much of what modern design was at. Though Finland came into design prominence later than its northern neighbours, Sweden and Denmark, the impact it made was huge.

Alvar Aalto's beautifully lucid and tranquil designs, often based on laminated blond Finnish beechwood, from the 1930s found a new audience in the young Europeans hungry for a new aesthetic after the dreary war years. Eero Aarnio's chairs became models of ergonomic rectitude.

Designers such as Tapio Wirkkala and Timo Sarpaneva brought a new approach to glass-making and bounced upon the international stage at the Milan Triennale during the 1950s. But it was probably the colourful cotton textiles of Marimekko that made the biggest impact round the world. Her fresh, joyful, sunny approach brought a new innocence and vivacity to the business of weaving textiles.

Today the works of these designers may be no less beau-

tiful or attractive but they are somehow, subtly, out of tune with the times. In spite of an inherent feel for quality combined with simplicity and a deep aversion to pretentiousness, Finnish design currently seems to be out of the limelight.

A look through the International Design Yearbook for 1993 edited by Borek Sipek reveals scarcely a Finnish object - during the 1950s and 1960s this would have been unheard of.

Nevertheless, behind the scenes, all is not lost. The high-profile names may not be there (this is currently a niche market for the Italians and, surprise, surprise, the British) but profitable, if less starry, markets are being developed in office, school and other contract areas. These have always been particularly suited to the Finnish gift for order, serenity and logic. Iku, for instance, uses light Finnish birch and pine for shelving, simple, orderly chairs and tables.

while Lepo Product's Paletti collection of chairs, tables, office furniture, lamps and storage units is durable, sturdy and much in demand among interior designers.

Even though Finland is unlikely ever to prove a rival to Paris, Milan or New York, it is building up a surprisingly successful and profitable business in clothing. Exports have grown continuously and steadily. The opening of the Russian market has given the clothing industry a big boost but names such as Luhta skiwear have built a steady international following for their combination of practicality, fashionability and reasonable prices.

Anne Linomaa had built up a niche business, too, with her ecological clothing collections for the eco-aware. The company was producing simple, naturally dyed cotton clothing long before ecology became fashionable.

Frifitala has always been renowned for its exquisitely made and classically designed sweaters and leathers. It has managed to walk the fine line between the classic and the modern, updating the sweaters (reindeer and pig) and leather styles with cut and colour. Popular in St Petersburg, as well as Peking, it is concentrating on selling through specialty boutiques.

Lapponia is Finland's biggest, most internationally successful jewellery company. It uses gold in a rich, almost



Kalevala Koru designs celebrate the myths and legends of Finland's past

sculptural way, combining it with aquamarines, opals, amethysts, tourmalines or pearls of diamonds if you wish, to make rings, brooches, necklaces and bracelets. Less ethnic in its appeal than Kalevala Koru and more contemporary in approach, it has an international following.

Hackman Housewares has long been a byword for solid quality, sturdiness and clean lines. Its range of stainless steel, coated aluminium, copper and cast iron cookware is scarcely bettered anywhere.

Though Finland is on the

whole irredeemably associated with the contemporary, there are niche businesses that hark back, or perhaps more politely put, build on a more nostalgic past. J. Marttini's hunting, fishing and camping knives, derive from a traditional way of life and have a strong visual appeal even for those who will never gut a fish or skin a reindeer.

Kalevala Koru makes jewellery that celebrates the myths and legends that are part of Finland's past. Many of the pieces are inspired by excavated artefacts - rings are

intricately worked, a menagerie of animals ranging from serpents to horses and birds appears on brooches, rings, necklaces. Fectoral crosses based around the "Long Mary" and Karelian ribbon winding are richly dramatic. Stones such as amethyst and spectrolite as well as rock crystal are combined with silver and bronze to produce jewellery with a distinct national identity. All the jewellery is made by the Women of Kalevala, a non-profit organisation formed to ensure that Finland's rich cultural history lives on in a vital way.

The Nostalgia Home Collection looks as if it comes straight out of a quintessentially English conservatory - here are elegantly light and graceful shapes, tables, chairs, storage shelves, all made from lightweight, sandblasted and powderpainted iron, which could happily live indoors or out.

Aalto managed to combine traditional woodworking skills with a contemporary approach to children's play in its beautifully crafted wooden toys all made from Finnish birch.

Those who have forgotten, or those who are too young ever to have seen, Alvar Aalto's serene and classic furniture might like to know that Artek, the company which is forever linked with his name, is still going strong. As trends go in and out, Aalto's furniture may be more or less in fashion, but something about them endures. There is nothing that is modish or ephemeral about them. As long as men need seats to sit on, tables to eat off and *quelque chose pour l'oeil* Aalto's furniture will live on.

Lucia van der Post



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Continued from previous page

that the state could have been more aggressive, selling out more stakes earlier in the cyclical upturn which has favoured the country's big exporters and driven the stock market up sharply in the past two years.

But there are good reasons for the government's caution. One is Finland's three-year long recession between 1991 and 1993 which dragged many companies into the red and sent share values plunging. "We have always had a very company specific orientation," says Mr Matti Vuoria, secretary-general of Ministry of Trade and Industry.

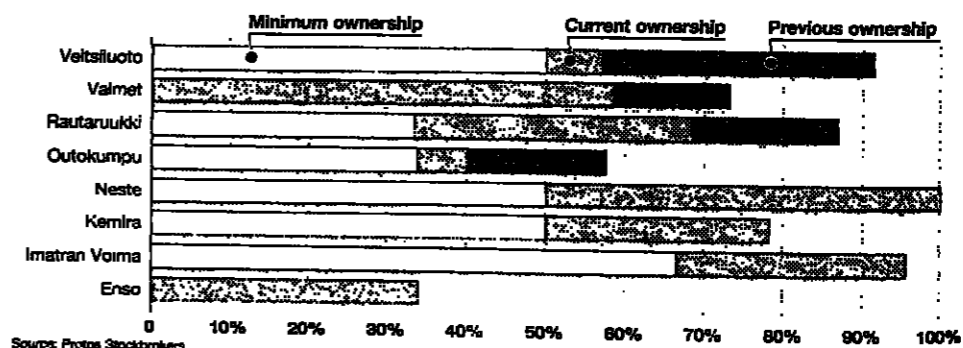
Another consideration has been the small size of the domestic market which could easily have been swamped if the government had been too ambitious.

The momentum of the process has shown no signs of abating. Indeed, one of the most ambitious parts of the programme - a partial privatisation of Neste, the oil and petrochemicals group - is likely to be next, possibly as early as the spring of 1995. Neste has been valued at FM10bn, so that even if only 20 per cent of the company is sold initially, it would be the biggest Finnish privatisation so far.

In addition, the government is looking for parliamentary permission to reduce its stake further in three other companies: Rautaruukki, Valmet and Kemira.

A key question will be the attitude of the Social Democrats who, the polls say, will return to power in general

Government ownership and privatisation



Stakes cut gradually

elections next March. They have been less enthusiastic about the privatisation process than the current centre-right administration and they could try to slow the process down.

International investors have played a crucial role in the privatisation programme, largely because there has been too much stock for domestic institutions to swallow and there has only been a limited retail element. More than 50 per cent of the shares offered so far have been taken up by foreigners.

This reliance on the international market has helped to drive up foreign ownership of Finnish companies at a time when foreign buying has in any case been heavy due to strong fundamentals and the 1993 liberalisation of rules on foreign ownership. Today around 30 per cent of Finnish shares are in foreign hands.

In some companies, the level is much higher. For example, more than 50 per cent of Nokia, the high-flying telecommunications group which launched a FM2.4bn share issue during the summer, is now foreign-owned. This prompted the group to seek a listing on the New York Stock Exchange, the first Finnish company to do so.

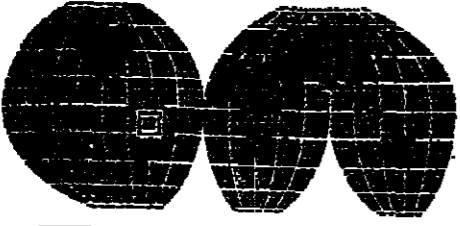
Some commentators worry that high foreign ownership levels and the continuing privatisation programme could unsettle the development of the stock market at a time when it is within striking distance of its 1989 all-time high. A sudden withdrawal by foreigners could quickly cause the market to plunge simply because domestic institutions could not handle it. This is what happened in the Finnish bond markets earlier this year. The risk of profit-taking in the equity market has been heightened by the strength of the markka which has amplified

dollar earnings.

With privatisation, the worry is one of over-loading. Mr Ari Lahti, managing director of Protos Stockbrokers, says parliamentary authorisation exists for a further FM11bn worth of privatisation excluding Neste. He argues that this is too big a burden for the market to absorb in the short term, when the total supply of cash from mutual funds, foreigners and domestic institutions is unlikely to exceed FM18bn.

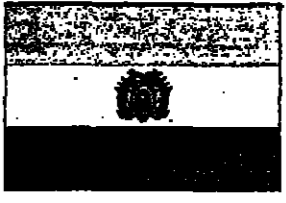
Mr Vuoria says foreign institutions will continue to play a crucial role both in the privatisation process and the development of the stock exchange, but he expects their interest to become "more focused" and "selective". At the same time he believes the growing domestic interest in the country's privatisation process will continue.

Christopher Brown-Humes



BOLIVIA

Wednesday November 9 1994



It is the poorest country in the western hemisphere after Haiti. Seventy per cent of the population live in poverty; average life expectancy is 60 years; 86 out of every 1,000 babies die before they are a year old.

Bolivia is still suffering the legacy of four centuries of plunder capitalism. Its 1953 revolution nationalised the mines, the centrepiece of the Bolivian economy, and opened the countryside to land reform. But in driving out the mine owners and landowners, the revolution drove away capital too.

The state, beset by corruption, proved an inefficient investor and little better at improving the lot of the population. In a country of more than 7m people, fewer than 1m have formal jobs and only 350,000 have bank accounts. The indigenous majority of Bolivians does not speak Spanish, suffers the racism of the European-descended minority and still ekes subsistence from the land or from petty commerce.

Landlocked, with prices for its main commodity exports plunging in the 1990s, Bolivia's survival without continued foreign aid in a competitive world market remains in doubt.

Yet, despite this bleak background, or in part perhaps because of it, there is now a strong sense of change in many parts of the country. Some regions - in particular, the plains to the east around the city of Santa Cruz - are enjoying growth led by agricultural exports.

The caricature image of a country beset by military dictatorships and political instability - Bolivia has experienced 78 governments in 169 years of independence - is losing its relevance now that elected governments have been in place for 12 years.

There have been nine years of economic stability since 1985, when inflation topped 23,000 per cent. This year, inflation should fall to 7.5 per cent or less - only Argentina's will be lower in Latin America. Once heavily protectionist, the country now has a maximum tariff of 10 per cent and allows free inflow and outflow of capital.

Yet economic stability has not been followed by sufficient overall growth to improve the lives of the poor majority. Slow growth, the present government believes, is an inevitable consequence of low investment over many years. Sharply increasing the investment rate is therefore its prime objective.

The architect of the successful 1985 economic stabilisation plan is now Mr Gonzalo Sanchez de Lozada, the president. The cornerstone of his policy to increase private investment - he hopes it will reach more than 20 per cent of gross domestic product by 1996 compared with about 14 per cent at present - is a plan to transfer six state companies responsible for one-eighth of the country's economic activity to the private sector.

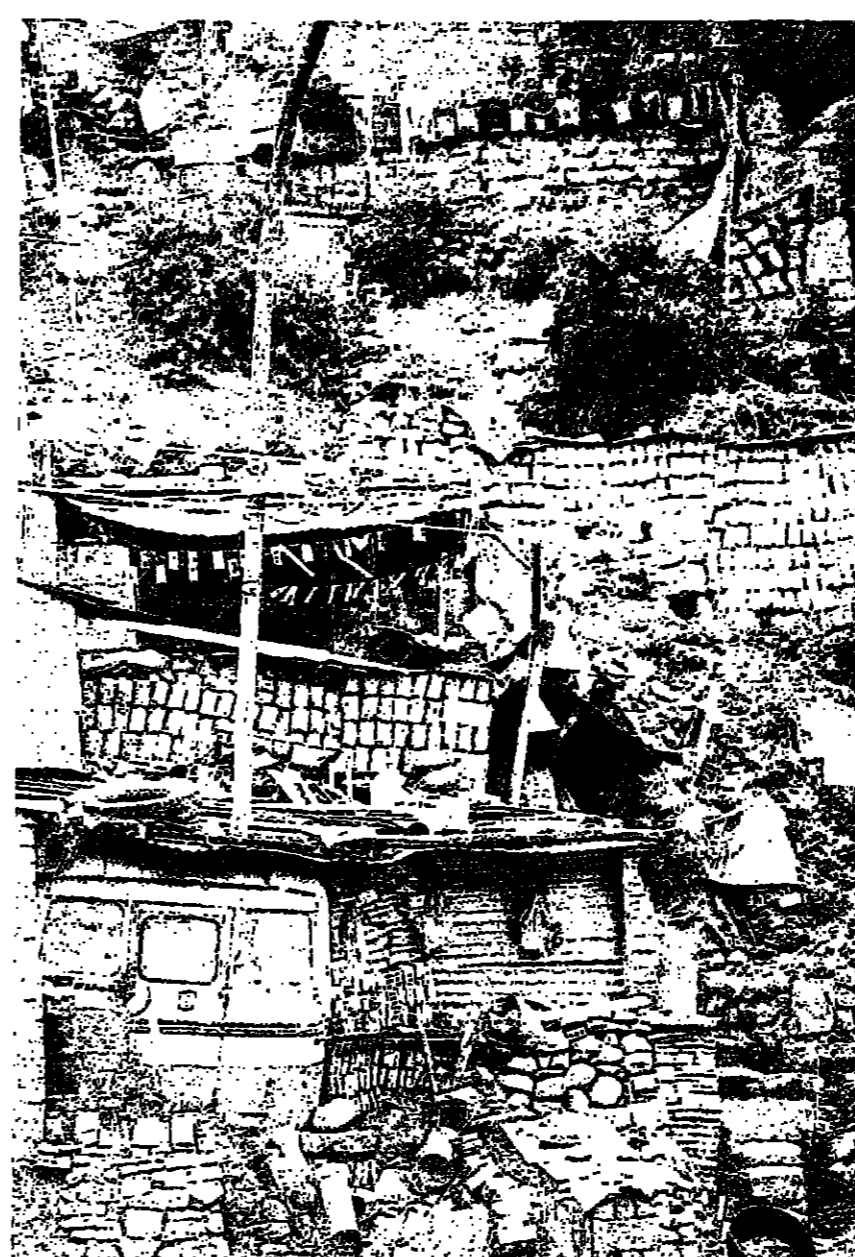
The process is being called capitalisation. It aims to entice foreign private operators to make a significant equity investment in the businesses, typically 50 per cent, and to distribute the remaining portion to Bolivians through newly created pension fund accounts.

The process is expected to start with the capitalisation of the state electricity generator.

The single most important capitalisation will be that of the state oil company,



Two faces of La Paz: the capital's modern city centre reflects nine years of economic stability...



but on the fringes of the city, the homes of the poor majority have not changed. Picture: Antonio Suarez

Economic growth is the key

Despite a bleak background, or in part perhaps because of it, there is now a strong sense of change in many parts of the country, writes Stephen Fidler

YFFB, which, despite its poor investment record, still accounts for about 9 per cent of GDP.

Mr Edgar Saravia, the senior official responsible for guiding through the process, says that by next year the first stage of capitalisation - transferring the companies to the management control of the new foreign shareholders - should be completed by July next year. Already though, he admits capitalisation is running six weeks behind schedule.

The completion of the process - let alone its ultimate success - cannot be taken for granted. It requires a heavy legislative programme and although the government coalition has with difficulty retained

majorities in both houses of Congress, they may not be reliable or durable.

Furthermore, because the Bolivian market is small, the amount that foreign investors are willing to plough into the companies will depend significantly on the extent to which they can use the companies to penetrate foreign markets.

Bolivia is therefore depicting itself as an entrepot - particularly for energy and transport - for South America's southern cone. And with regional economic integration proceeding apace, both at the governmental and entrepreneurial level, the idea of Bolivia as a hub is no longer the pipe dream it would have been a decade ago.

But, while capitalisation may be a neces-

sary condition for accelerating economic growth, nobody sees it as sufficient. If potential foreign investors are less worried about the country's political stability than they were, they have significant concerns about other obstacles to business.

One big obstacle, particularly to investment in agriculture, is land titling. The country's competing titling authorities have now more or less ceased to function and the present law allows for different owners of the land, the underground resources beneath it, and the forest above.

Mr Jose Guillermo Justiniano, the minister of sustainable development and the environment, says "complete chaos" surrounds the titling issue, but that the gov-

ernment is drafting a law to address the problem.

Corruption remains another pressing problem - and the aim of reducing it provides a further reason for ending state ownership of productive enterprises. Congress is wrangling over whether to lift the diplomatic immunity of the previous president, Mr Jaime Paz Zamora, who has been accused along with other members of his party of ties with drug traffickers.

The company running La Paz's cable television channel, for example, has complained it is being targeted for bribes by city officials. There is a price for not paying the frequency with which the company's cables get damaged by municipal and

other vehicles. Other obstacles cited by foreign investors include poor infrastructure, the continued strong influence of the trade unions, and the legal system.

Mr Guido Antezana, a former head of Bolivia's banking association, describes the legal system as "morally bankrupt and technically obsolete". For business, it presents "a big roadblock. There is no certainty that any contract will be enforced," he says.

The government has already begun to move on this, although the task is enormous. Constitutional reform has, among other things, established a new tribunal aimed at cleaning up the judiciary. In another unprecedented development, two supreme court justices were impeached for corruption.

It is not only in the economic domain that the government has directed its reform efforts. It has overhauled the executive branch, the drawback being that getting accustomed to this new structure has delayed other aspects of the government's programme.

It has passed a law aimed at decentralising political decision-making. Called popular participation, it is designed to devolve power and finance to local municipalities and community groups in all parts of the country, many parts of which have never had local government. Education reform has for the first time permitted instruction in languages spoken by the country's indigenous majority.

By any standards, this is an ambitious reform programme, and unlike some leaders, the US-educated Mr Sanchez de Lozada does not lack the "vision thing".

What is in question, however, is application. The president, a philosophy graduate from the University of Chicago, loves "brainstorming" sessions. He follows opinion polls closely - too closely, say some of his supporters. And, partly as a result, he makes decisions and then often reverses them days later.

Because of the country's heavy dependence on foreign aid - which he hopes his economic programme will end - his decision-making has to take into account the often conflicting opinions of the international financial institutions, the more than 400 non-governmental organisations operating in the country, and the US and other donor governments.

The president has no love either for Bolivia's pork-barrel political culture, or the cut-and-thrust of politics, which he is widely said to see as an obstacle to his reform ideas.

Another subject he is said to despise is the controversy over the growing of coca leaf, the raw material for cocaine. The importance of coca to the Bolivian economy has declined over the past five years - the area under cultivation has remained more or less stable, while it has quintupled in Peru - but it remains a thorn in the government's side.

He has been caught in the middle of Washington's policy of repressing coca cultivation and the Bolivian population's romantic, if possibly misguided, attachment to the growers of the plant.

Already, 15 months has passed of a short four-year presidential term. The president makes no bones about the enormity of the task he is undertaking. But he says he has a consolation: "There's one thing that makes me see the light - there's no way I can do it worse than the others have done."

President Gonzalo Sanchez de Lozada talks to Stephen Fidler, Richard Bauer and Sally Bowen

Question: Your government gives the impression of having a lot of vision, a lot of ideas, which seem forward-looking and coherent. But some of the measures you have introduced - for example the reform of the executive - may have put back other aspects of your reform. And after 15 months of your government, its practical impact seems to have been limited.

Answer: In the first year of this government, the legislation which came about, including constitutional reform, was simply extraordinary. But that is very far away from people's lives.

Let's start with our reform of the executive branch. If you don't take that step at the beginning of a new government, the cement gets and you can never change it. But there's a cost - in time lost until people adjust and until the system works - but the steps that have been made have been very important.

Let's go to step number two - popular participation. For the first time in 500 years we have recognised the existence of native communities. Why Bolivia works with a low level of violence, and is a working, functioning democracy with our terrific, critical poverty is basically because the family and the community is very important. We've created territorial municipalities - true local government - as opposed to the traditional, colonial, Spanish city where the landowners lived and which governed the countryside.

We've given economic and political power back to the people. Two-thirds of Bolivians are Indian communities and the great majority of Bolivians don't speak Spanish - as the president doesn't speak it well. We also took 20 per cent of the central government's income and distributed it according to the population, so for the first time in 500 years people received money instead of sending money to central government. They're deciding

what they're going to spend the money on, and we've also given them the administration of health and education.

The central government will provide the teachers and the doctors, but the community will administer them. Of course, the teachers' unions are indignant and the doctors are outraged because they have these poor, dirty Indians telling them what services they need.

It started on July 1, so the people are starting to get the money. Of course, they'll wake up and realise the money's nothing next to the problems, but before they had nothing. Aren't you worried about local corruption?

The church asked me about that and I said if that should happen we'd be the first country to have democratised corruption. Why should only the big guys steal? Let the little guys steal. But I don't think so - I asked that of the local mayor in a community I visited and he said: 'I can't because everybody's looking at me'.

What about central government reform?

The third thing was constitutional reform, and we've gone for the German (electoral) system where we have proportional representation in the congress, but half the legislators are voted by districts.

Now, we just have a list, so if you vote for the president in every department you get the president's man. But they're going to have the right to vote for the guy that represents them and for the president, but we will still have proportional representation.

In the constitutional reform, we've brought in the ombudsman, and we've brought in complete reorganisation of the judicial branch.

INTERVIEW

'Very important steps have been made'

Finally, we come to capitalisation which is probably the cornerstone of the whole thing. In traditional privatisation you sell the state-owned assets and whoever buys them has to invest and modernise.

What we're saying is, don't buy it from us, put in the money to modernise it and what is left in the hands of the state, which would be up to 50 per cent, we then distribute to the Bolivian people for pension plans. That's easier said than done: individual capitalisation pension plans.

Are you optimistic that capitalisation will work, will attract investors?

We're very sure that it will. Let me give you a reason why: Bolivia is a relatively large country but it's a small, poor economy. But we had never taken into account, living up here in the Andes, that it is a hub: its location is what makes it valuable.

Let's take the electric energy sector: we have 31 companies interested in the capitalisation which we hope to have finished by March. What they've told us is you're sitting at 4,000 metres and an awful lot of water goes down to sea level.

And it's environmentally friendly. We can sell the electricity into southern Peru, northern Chile and Argentina and into Brazil.

You take the second sector: hydrocarbons. Bolivia, on top of very important reserves, is situated strategically so that it can export into northern Chile, southern Peru, São Paulo.

For big oil companies, gas was a nuisance and an unnecessary by-product. But in an environmentally-conscious world, big companies have to be gas-orientated. We think the prices are ridiculously low, we think we are being taken to the cleaners, but we know that the trend as people get used to gas, and see the benefits of an abundant, economic and clean fuel, we're sitting on a gold mine.

The last thing on the agenda is educational reform. Here we're talking about something that nobody ever accepted - that you should learn to read and write in your native language.

Nobody can learn another language until he's learned to read and write and think in his own language. This doesn't sound like much, but this is



President Sanchez de Lozada: 'We've given economic and political power back to the people' Picture: Mickey Rogers

revolutionary. They grab these poor children they throw them into school, they have a teacher that talks to them in Spanish and are prohibited to even use their native clothes. Secondly, we've decided that all schools, public or private, must be accredited. We want to have standard testing: we've created a regulatory body that's elected by a two-thirds majority to do this. The school-teachers are outraged because they will be dependent on the community.

Isn't it true that you're really not informing people much

about capitalisation?

In a way, you're right. We learn from Machiavelli that change is not advisable because those affected realise it immediately and those benefiting take a long time. So there's a terrific problem in communications, and it's basically because the president isn't talking to the people. The reason he's not talking to them is that we are in this gestation period - these are very hard policies to put in place.

This is the critical year; we must finish capitalisation this year, we think we can do it

easily we'll get it done by 1995. But people won't see anything till 1996 because the people who capitalise this country will have billions of dollars on deposit but then they have to do the studies, they have to place the orders and then they'll be seeing it moving.

Do you have a clear strategy of what you will do about Bolivia's illegal coca production? Obviously not: who has a clear strategy with drugs? The day somebody invents a synthetic cocaine it's all finished. But the damage is to us because our institutions are too weak to resist the cartels.

The amount under cultivation hasn't grown in the last few years. Is that good news?

In drugs, all I can say is it's like having cancer and saying it's not growing. You haven't got free of the cancer but at least it's not growing. Are the armed forces and police involved?

Well, no. The armed forces were intensely involved before democracy came back. These institutions have a great ability to cleanse themselves through promotions, and they retire so quickly and they move up, and we have isolated the armed forces; they only

give a support role to the police.

The police, who were terribly corrupt have again been purified. I won't say lily-white, but I think that the area of greatest preoccupation is the judicial branch. We're working very hard because a country without justice is like a land without water. We're working very hard to depoliticise it; make it independent; make it impartial; make it competent.

Generally, institutionally we're doing relatively well. Where we're not doing well is that the so-called farmers' unions are the bottom rung of drug trafficking. I'm not saying they're taking it to England or taking it to the US, but they're definitely getting the paste to the boys in the line.

Colombia's integrating backwards; they want to produce their own coca so they don't have to depend on Bolivia. The Bolivians want to produce their own cocaine so they can sell it directly to the market. It's a very, very dangerous situation and I must admit that we're racking our brains.

Don't forget that Bolivia was, like most countries, not only ineffective at providing goods and services, it was really ineffective at providing social services. We recognise that that's the role of the state - the real mechanism of redistribution of wealth - but we think governments, including the developed countries' governments, are awful at doing that. They're better at producing electricity or oil than they are at producing health and education. So we're giving it back to the people...

There's one thing that makes me see the light - there's no way I can do it worse than the others have done. When they say 'How can you give all these Indians all this political power and economic power?' I say 'They can't do worse than we've done'.

You're worried about corruption, you're worried about them having a party; at least it'll be a good party. They can't do it worse than we've done for 500 years.

Note: This is an edited version of the full text of the interview.

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The Indians: Mr Victor Hugo Cardenas, Bolivia's vice-president, is greeted (above) by villagers in his home town on the shores of Lake Titicaca. Symbols are important Page VIII

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Production Editor: Philip Sanders

BOLIVIA II

Sally Bowen reports on trade and foreign policy

A healthier footing



Proper invoices will be an innovation for the street-sellers of La Paz and their customers

Picture: Antonio Suarez

The accelerating process of opening Bolivia up to international markets, started in 1985, is beginning to bear fruit. A combination of entrepreneurial thrust and bilateral free trade agreements has helped close the yawning 1983 trade gap. Now, in 1994, growing non-traditional exports are helping put Bolivia on a healthier footing with trading partners.

"Bolivia adopted market-oriented reforms and low import tariffs earlier than any Latin American country except Chile," says Mr Carlos Morales, trade and industry minister. "It's been tough for businessmen but they now realise that, with a small domestic market and low per capita income, we must export in order to produce."

Official figures show revenue from non-traditional - principally soya beans, gold, jewelry and textiles - jumped 83 per cent in first half of 1994 compared with the same period last year. By year's end, the trade ministry estimates, non-traditional could earn \$400m, approaching half of all export revenue.

Last year, almost 40 per cent of Bolivia's trade was with other Latin American countries. The European Union accounted for 28 per cent - mainly traditional mineral exports - and the US for 24 per cent. High transport costs mean Bolivia's present exports to Asia are a slim 8 per cent - products are mainly natural-resource based with little value added.

The US has become the main market for Bolivia's non-traditional exports. Under the Andean Trade Preference Act - instituted during the presidency of Mr George Bush to help support alternatives to illegal drugs trafficking - some 6,000 Bolivian products can enter the US free of duty.

Although landlocked, Bolivia has the advantage of sharing borders with many countries. Under the Paz Zamora administration, Bolivia started negotiating a series of bilateral trade accords with neighbours and other Latin American countries. These initiatives have been stepped up under President Gonzalo Sanchez de Lozada.

"The adoption by the Andean Pact countries of market-oriented economic policies has been good news for Bolivia," says Mr Morales. Peru is Bolivia's chief customer within the Pact, buying

\$42m in Bolivian non-traditional goods (mainly soya and its derivatives) in first-half 1994 - nearly a quarter of the total exported and 63 per cent more than for the first six months of 1993.

Boosting the chances of closer integration with Peru is the 1992 agreement which granted Bolivia rights to an industrial free trade zone and a 5km strip of desert coast near the southern Peruvian port of Ilo. In return, Peru won access to Bolivian river port facilities in Puerto Suarez, on the borders of Brazil, with an outlet to the Atlantic.

Bolivia, however, is in pursuit of the largest possible number of trading partners. It is particularly attracted to the Mercosur group of countries comprising Brazil, Argentina, Uruguay and Paraguay. Bolivia was granted "observer status" last December.

"We see ourselves as a hinge between the Andean Pact and Mercosur," says Mr Morales. "We believe in a larger trade area and we're negotiating aggressively within the vision of Mercosur."

In January and March this year, Bolivia signed preliminary free trade agreements with Paraguay and Brazil to complement its existing accords with Argentina and Uruguay. These are seen as essential, if limited, first steps in fulfilment of the ambition to join Mercosur.

A landmark trade accord with Chile, signed in April

1993, has so far proved disappointing. La Paz businessmen claim that Chile is blocking Bolivian exports by over-rigidly applying non-tariff regulations while swamping the Bolivian market with Chilean consumer goods. Re-negotiations in October, however, should give Bolivians a chance to level the trade score.

Bolivia's most recent trade accord was signed with Mexico in September, allowing for phasing in of total free trade within 15 years. However, 98 per cent of all products will be traded tariff-free within 10 years and a significant portion immediately.

Trade between the two countries is small - worth less than \$20m in 1993 - and weighted in favour of Mexico. But Bolivians expect exports of wood, alpaca textiles and gold jewelry to expand fast. Government officials estimate that bilateral trade will jump to \$50m in year one.

Meanwhile, Bolivia is also starting to see benefits from its five free trade zones established from 1991 onwards. Their objective is to cut incentives for the flourishing contraband business which for years has siphoned state revenue from import duties and value-added tax.

Mr Oscar Ewel, general manager of GIT, the company which holds the 40-year concessions for the La Paz and Santa Cruz free trade zones, esti-

mates that some 60 per cent of the \$400m or so imported into Bolivia via Chile's free port of Iquique is smuggled. Mr Ewel believes that illegal goods entering Bolivia from Brazil via Santa Cruz account for \$300m of a total of some \$420m. GIT (part of the Banco Industrial-ICE group) has invested \$3m in La Paz free zone infrastructure to date. Some 350 Bolivian companies are now regular users and GIT expects to handle in excess of \$100m this year.

With a standard 10 per cent import duty and 13 per cent sales tax, GIT is collecting some \$25m for the Bolivian customs.

In a late October initiative, the La Paz free trade zone inaugurated a direct import service "to help formalise the informal trader who spends under \$2,000 at any one time," says Mr Ewel.

Those buying through the free trade zone will receive and supply proper invoices, an innovation for the street-sellers of La Paz and their customers.

Santa Cruz's free trade zone started operating in January. This year it will handle some \$30m in merchandise, not yet making much of a dent in contraband from Brazil. Smaller free trade zones have also been set up under concession in the cities of Cochabamba, Oruro and Puerto Aguirre.

Still pending is reform of Bolivia's customs service which is scheduled for privatisation in the near future.

Stephen Fidler examines the external economy

Debt burden has been eased

Bolivia's inflation rate has fallen dramatically and moderate growth has resumed. Its debt burden has been lowered through judicious negotiations with commercial and foreign government lenders. The government has no outstanding debt to foreign banks having bought back the loans to banks, in two stages, at steep discounts to face value.

The country remains nonetheless highly susceptible to external financial and price shocks and over-dependent on financial help from foreign governments, multilateral institutions and non-government organisations from abroad.

The involvement of these agencies significantly reduces - for better or for worse - the government's freedom of policy action and undoubtedly lengthens the time it takes to make decisions.

Bolivia's exports are still highly concentrated in a few commodities, prices of which are dependent on uncertain world markets.

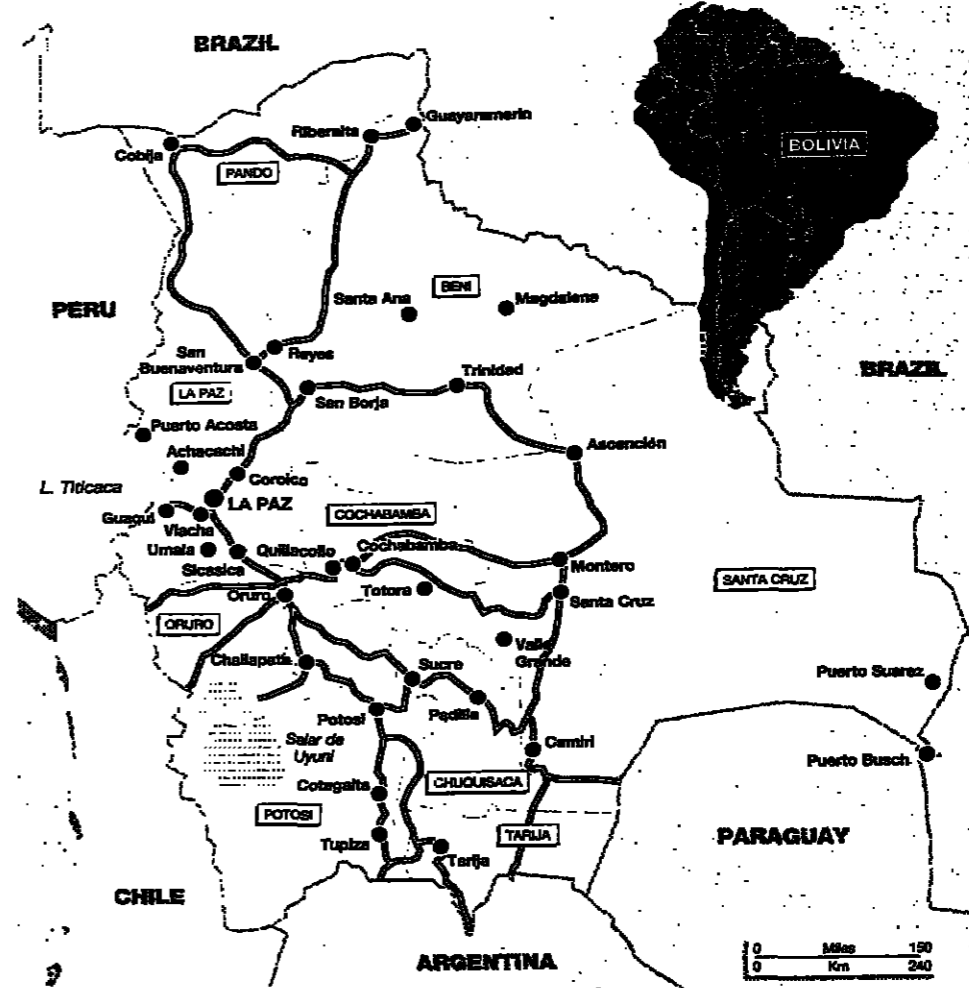
Between 1983 and 1993, the government estimates its terms of trade deteriorated by 60 per cent and the deficit on the current account averaged about 7 per cent of gross domestic product.

Last year, the deficit widened to an unsustainable 13 per cent of GDP, although the picture has improved this year, helped by a sharp rise in non-traditional exports.

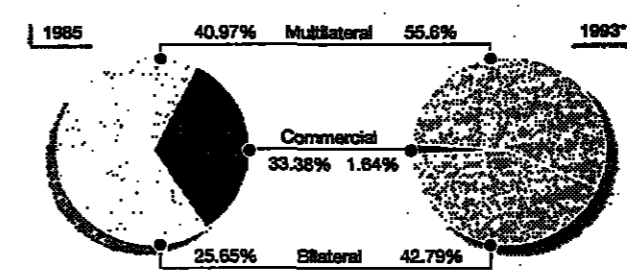
To cover its shortfall, the government has needed international assistance. In the past, this has run at some \$700m a year. After the government signed a \$140m three-year loan agreement with the International Monetary Fund in Washington last month, Bolivian officials headed for Paris to secure a further \$1.1bn aid package to help finance their reform programme in coming years.

However, the government recognises the reliability of such future flows is open to question. The governments of industrialised countries face intensified budget pressures, and the emergence of competing regions for aid - the former communist countries, the Middle East and southern Africa - suggest that the future availability of finance cannot be taken for granted.

Bolivia has one of the highest per capita dependencies on foreign assistance in the world. "We are going to lower our dependence on aid. It's not sustainable," says Mr Fernando Candia, the central bank president.



Composition of external debt



Source: Central Bank of Bolivia

* Preliminary figures

Indeed, debt ratios remain high. Total foreign debt totalled \$3.79bn - 55 per cent of GDP - at the end of last year, of which about \$1.6bn is owed to foreign governments and \$2.1bn to multilateral agencies. The ratio of total debt to exports was 536 per cent at the end of 1992, and debt service accounted for 39 per cent of export revenues.

Because the government's reform efforts are expected to increase the budget deficit in the next two to three years - the World Bank says the programme will cost 3.5 per cent of GDP during the period 1994

to 1997 - the government's need for finance will increase. The government is expected to take on the debt of the railways and mining company, but other debts are expected to be transferred to the capitalised companies. The net effect, says Mr Candia, is a net reduction of \$300m in public sector debt.

After 1997, the government hopes that increased tax revenues from the capitalised companies will start to improve its financial position. Furthermore, after capitalisation, increased foreign investment flows should allow the country

to reduce its dependence on foreign aid and increased exports lower its need for foreign finance.

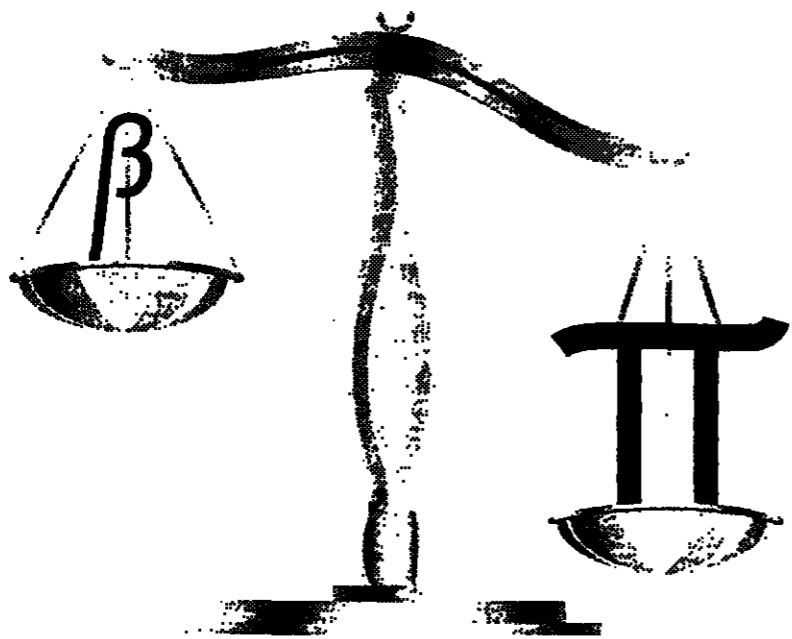
In the meantime, the sharp increase in non-traditional exports - up 83 per cent in the first half of 1994 over 12 months earlier - has helped the current account position. This year's first-half current account deficit fell 67.3 per cent to \$86.1m from \$253.3m last year.

The increase in exports has also been helped by firmer commodity prices. It may also be that at least the economy is responding to a central bank policy which aims to avoid unnecessary fluctuations in the exchange rate and to hold it stable in real terms.

At the same time, lower interest rates overseas and an improved perception of the political and credit risk of placing funds in Bolivia has allowed some repatriation of flight capital. As a result, net foreign reserves have now risen to their highest level in Bolivian history: \$550m - equivalent to about 5% months of imports.

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BOLIVIA IN BRIEF

Main towns

Population in thousands

(1988):	
La Paz	1,050
Cochabamba	377
Potosí	114
Santa Cruz	615
Oruro	195
Sucre	96

Language

Spanish; also Quechua and Aymara

Ethnic mix

Some 30 per cent of the population is Mestizo, 25 per cent Quechua, 17 per cent Aymara and 12 per cent white, with the balance classified as "other"

Entry requirements

Passport required by all Tourist card or visa required by all except citizens of US and certain western European countries (not France). Exit stamps needed before departure. Non-tourist visitors are required to obtain a 'Determined Object Visa.' All visitors must register with the Immigration authorities.

Working hours

Government and business: (Mon-Fri) 0900-1200.

GDP by type of activity

1993 preliminary figures

Agriculture, forestry, food	16.12%
Mining, quarrying	9.64%
Manufacturing	14.17%
Electricity, gas, water	1.70%
Construction, public works	3.93%

Finance, etc.	10.94%
Communal services (inc Hotels)	4.81%
Public admin.	9.01%
Domestic service	0.52%
Transport, etc.	11.25%
Commerce	10.83%
Undeclared & incorrect tax	7.03%

Source: Department of National Accounts/National Statistics Institute

Public holidays

1995: January 1 (New Year)
April 14 (Good Friday)
May 1 (Labour Day)
June 15 (Corpus Christi)
August 6 (Independence)
November 1 (All Saints' Day)
December 25 (Christmas)

TIME:

Four hours behind GMT

Climate

Tropical below about 1,500m, cool above 3,500m. Examples: Santa Cruz (437m altitude), mean temperature 23.8°C, average annual rainfall 1,157 mm; Cochabamba (2,553m), mean temperature 18°C, average annual rainfall 470mm; El Alto (4,103m), mean temperature 8.8°C, average annual precipitation 560mm.

Weather in La Paz (3,658m): mean temperature 11.2°C, average precipitation: 439 mm, hottest month: November 6°C-19°C (average daily

KEY FACTS

Area	1,086,581 sq km
Population	7.71m (end-1993 estimate)
Head of state	President Gonzalo Sanchez de Lozada
Currency	Boliviano (Bs)
Average exchange rate	1993 \$1=\$b4.27; 1/11/94 \$1=\$b4.66

ECONOMY

	1993	Latest
Total GDP (\$bn)	6.6	n.a.
Real GDP growth (%)	4.2	4.0
GDP per capita (\$)	856	n.a.
Consumer prices (% year end)	9.3	7.5
Reserves minus gold (\$m)	223	256
Total external debt (\$m)	4,326	n.a.
Debt service ratio (%)	23.8	n.a.
Current account balance (\$m)	-471	-451
Exports (\$m)	710	887
Imports (\$m)	1,206	1,326
Trade balance (\$m)	-496	-439
Main trading partners (1992, % by value)		
US	18.0	23.3
Argentina	21.5	10.4
Brazil		14.5
Japan		12.6
UK	18.1	
Development indicators	20 yrs ago	latest
Life expectancy (years)	47.0	59.6
Infant mortality rate	151.0	82.0
Population growth rate (% pa)	2.6	2.5
Dependency ratio	0.87	0.83
Urban population (% of total)	41.5	52.4
Agriculture as % of GDP	20.3	32.6
Adult illiteracy (% aged 15+)	n.a.	22.5

Notes: 'EIU forecasts for 1994 except reserves (May).

* Estimate

*per 1,000 live births

*Ratio of dependent population (aged under 15 or over 64) to working age population.

Sources: IMF, World Bank, Economist Intelligence Unit

minimum and maximum,

coldest month: July 1°C-17°C,

driest month: June: 8mm

average monthly rainfall,

wettest month:

January: 140mm average

monthly rainfall.

Sources: EIU Country Profile,

World of Information, Europa

World Yearbook 1994

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Capitalization

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ELECTRICITY

Bolivia must develop its hydro and thermoelectric resources to improve services nationally and supply its neighbours.

AIR TRANSPORT

The Bolivian national airline and airports will have to expand their services to allow for increased passenger volume within the country and create an international nexus for the region.

TELECOMMUNICATIONS

Bolivia must double the number of telephones per head over the next few years and attain the levels of technology required by a country needing world-wide communications.

FOUNDRIES

Bolivia is a mineral rich country, but urgently needs the capital to exploit these resources to the benefit of all its citizens.

RAILWAYS

With a modernized rail system Bolivia will become a transport corridor, offering the means to interconnect production centers and ports throughout South America.

OIL AND GAS

In order to fully exploit this wealth, Bolivia must take advantage of its geographical position and realize its potential to become the hub of a hydrocarbons distribution network.

Bolivia is a successful representative democracy with a stable economy. It has one of the most liberal trade policies in Latin America including progressive foreign investment laws. Bolivia has an investment law which guarantees the free movement of capital for payment of interest, dividends and royalties. This law offers national treatment to foreign investors and permits 100% foreign ownership of companies. Bolivia's low cost labor force is skilled and well-motivated.



Bolivia is a member of GATT, the Latin American Integration Association, the Andean Pact, the Amazon Cooperation Treaty and the Rio de La Plata Basin Treaty. It enjoys free trade with the Andean Pact nations and is a beneficiary of the Andean Trade Preference Act with the United States. Bolivia has also signed preferential trade deals with Mexico, Chile, Brazil, Argentina, Paraguay and Uruguay, and has GSP status with Europe, Japan and the United States.

For information call: Winston Moore, Ministry of Capitalization, Direct TeleFax: (591) 811-2823
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Main Telephone: (591-2) 35 1859/5388/7692

BOLIVIA IV

After years of neglect, the vital 500km road link between the rich agricultural flatlands of Santa Cruz and Cochabamba in the central cordillera is being repaired. Along the highway, caterpillar trucks and bulldozers - many belonging to Brazilian road-builders Andrade Gutierrez and Odebrecht under Bolivian government contracts - are shovelling, levelling and asphaltting. Flood-damaged bridges are being re-fashioned, new ones built.

The country's road system is getting a face-lift, and not before time.

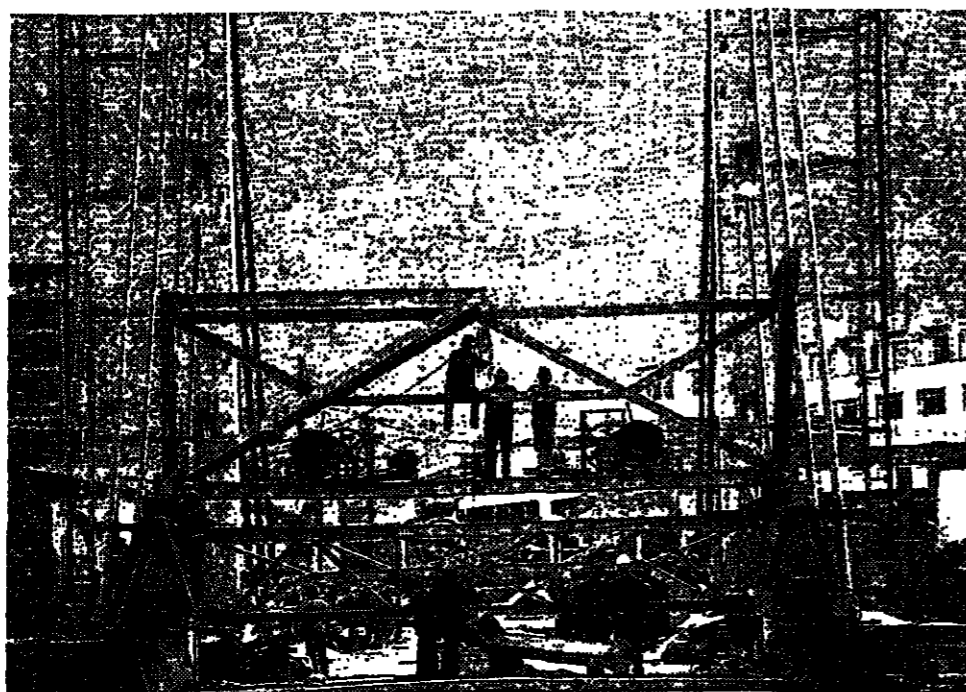
Historically, according to Mr Lucio Paz, transport minister, Bolivia's road and rail system has been the prime obstacle to national economic development. Only 4 per cent of the country's 40,000km of roads is asphalted; more than three-quarters are virtually unusable for six rainy months each year.

Now that Bolivia's development plans hinge on becoming a strategic hub for the South American continent, transport is a high priority. The ministry's ambitious brief is to build 2,700km of roads within the next five years - at an estimated cost of \$1.5bn - as well as improving and asphaltting many of the existing land connections.

"Our road communications are a hundred years behind our telecommunications," says Mr Paz. "Unless we can make a dramatic leap forward, investors simply won't come to Bolivia." Road improvements could cut high Bolivian transport costs by as much as 50 per cent, he says.

Underlining this message is the rapidly improving condition of the road between Chile's port of Arica (presently the principal route for Bolivia's imports and exports) and La Paz. By late next year, travelling time will have shrunk from as much as six days in bad weather conditions to six hours.

With the decline in relative importance of minerals transportation, and the boom in soya and other agricultural exports, roads rather than railways have become the focus of attention for Bolivia's planners. Officials hope to leave the new investor-operator of soon-to-be capitalised state railways company Enfe to resolve the problems of upgrading, boosting standards and investing in the vital "missing link" between Santa Cruz and Cochabamba.



Transport is a high priority: 'Puente de las Americas' under construction in La Paz

Picture: Antonio Suarez

Sally Bowen examines the infrastructure

Face-lift is overdue

But road-building is costly. One Bolivian kilometre can cost \$300,000 on the flat eastern plains and \$1m or more on a mountainous stretch.

The government has some \$200m in its present annual budget for roads, "but we need to find new sources of financing construction," says Mr Paz. One plan is to hive off as concessions certain potentially profitable sections to private companies which would build,

By the end of 1996, the government plans to have 17 more provincial landing strips surfaced

collect tolls and maintain highways.

Bolivia's rugged terrain means that efficient air links are essential. Many of the 37 airports are rudimentary: only 10 have tarmac and just two (La Paz and Santa Cruz) are classified as international. By the end of 1996, the government plans to have 17 more provincial landing strips surfaced and their infrastructure improved.

The government of Japan,

meanwhile, is donating \$30m to re-equip the capital's El Alto airport, extend the runways, upgrade lighting and improve communications and traffic control systems. Japan has also helped out with road-building equipment and seven bridges to link primarily Japanese agricultural colonies in Santa Cruz department to main highways.

"We're knocking on everyone's door for financing," says Mr Paz. He has \$12m in the bag from the Inter-American Development Bank to upgrade the road link from La Paz to the Peruvian frontier at Desaguadero, thus opening up access to the as yet undeveloped free port facilities and coastal strip granted by Peru to Bolivia in 1990.

In the other direction, an international tender will soon be sought for upgrading the 640km dirt road eastwards from Santa Cruz to San Matias on the Brazilian border.

This will open the way for thousands of tonnes of soya beans from the Mato Grosso in south-west Brazil to cross the continent through Bolivia for eventual shipment to Asia through Peruvian or Chilean

Pacific seaports.

Also arousing the enthusiasm of top-level politicians and planners is the so-called "hidrovía", a 2,700km Paraguay-Paraná waterway system which provides a link between landlocked Bolivia's Puerto Suarez, a river port on the River Plate estuary.

Initial investment - in dredging the shallow upper reaches and providing proper signalling so that barges may also move cargo by night - is estimated at about \$11m. These improvements, say analysts, will cut transport time in half and slash the high costs (between \$10 and \$15 a tonne) between Bolivia and Buenos Aires. Financing has already been offered by the IADB and the UN Development Programme.

A totally new port is also planned at Puerto Busch, on the Paraguay river and some 140km south of existing Puerto Suarez. The state will build the road, say government officials, and leave private enterprise to develop port facilities. The European Union, and in particular the Belgian government, has offered assistance.

Richard Bauer assesses Bolivia's role as an energy exporter

A cherished ambition

Bolivians are sloughing off their century-old dismay at being landlocked. Suddenly, the condition is perceived as a positive asset. "We aim to become the natural gas distribution hub for the southern cone of Latin America," says Mr Mauricio Gonzalez, president of the state-owned petroleum company YPFB.

Mr Claude Bessé, adviser to the government on the capitalisation of state power company Enfe, is in equally optimistic and expansionist mood. "We want to use our geographical position to satisfy growing demand for electric energy in surrounding countries which have poor supply and high prices," he says.

The idea of serving both as an energy "bridge" and exporting gas and electricity to its neighbours has become a Bolivian leitmotif. "Macro-economic stability and the possibilities of sustained growth depend in large measure on the health of the hydrocarbons sector," says Mr Herbert Muller, the former Bolivian energy minister who helped engineer the ground-breaking February 1993 gas export agreement with Brazil. "The projected gas pipeline will be the engine for Bolivia's economic growth."

Bolivia's proven natural gas reserves of 8-7 trillion cubic feet are enough to meet south-west Brazil's energy needs for the next decade, says Mr Fred Drew of the Santa Cruz office of Broken Hill Proprietary, the Australian gas exploration and production specialists. Bolivian gas output has been steady at about 500m cu ft a day for the past 12 years.

Hydro-electric generation, meanwhile, has scarcely been touched. Presently, only 2 per cent of an estimated 18,000MW potential is exploited. Possibilities for cheap hydro projects abound, according to Mr Julio Leon Prado, founder and president of ICE, Bolivia's largest construction company. He believes local construction costs will be substantially lower than in neighbouring countries.

For 22 years past, Bolivia has exported 200m cu ft a day of natural gas to Argentina via a 600km, 34-inch pipeline origi-

nally co-financed by the World Bank, the Inter-American Development Bank and the New York State Common Retirement Fund (NYSCRF). The contract expired in 1992 but delivery continues uninterrupted at \$1 per 1mBtu despite recent Argentine deregulation and competition from the local hydrocarbons industry.

But Bolivia's cherished ambition is to break into the huge Brazilian market. For years, it has been thwarted by internal squabbles within Bolivian governing elites on the one side and protectionist, oil-burning Brazilian state industry on the other. Now, the two state hydrocarbons companies, YPFB and Petrobras, have reached a 20-year sales purchase agreement.

President Gonzalo Sanchez de Lozada's personal intervention in August. Now Petrobras will have only a 15 per cent stake in the 560km Bolivian section and 80 per cent in the Brazilian stretch of the pipeline. YPFB will have 85 per cent of its home stretch and 20 per cent of the Brazilian end.

Bolivia's partner on both sides of the border will be Texas-based Enxco, which has a 40 per cent stake in the YPFB participation. Petrobras, meanwhile, has gone into association with the "BTB" Group, which holds 25 per cent of the holding for the Brazilian side. "BTB" comprises BHP, US natural gas company Tenneco and the experienced distributors British Gas.

Biggest nuts still to crack



Gas pressure is checked at a plant near Santa Cruz

Picture: Ricky Rogers

Initially, YPFB will supply 280m cu ft a day rising to 560m cu ft within seven years. But Brazilian demand for natural gas could well increase to 1,500 cu ft a day by the year 2000 and 2,300 cu ft by 2005, says Mr Gonzalez.

He predicts: "There will be Bolivian gas in São Paulo by the end of 1997." The projected 32-inch 1,800km pipeline will run from Bolivia's Rio Grande to Campinas, 90km west of São Paulo. In a second stage, a 420km, 22-inch line would serve the town of Curitiba. And Petrobras plans another 570km line running south from Curitiba to Porto Alegre.

Brazilian-Bolivian negotiating tensions were relaxed by

are finalising finance for the \$2bn-\$2.5bn project, the largest of its kind ever in Latin America, and fixing the gas price. The World Bank, meanwhile, still appears reluctant to commit itself to a venture where Petrobras, a state-owned company, holds the majority stake. Industry sources, however, say the pipeline will easily secure private sector financing provided there are adequate guarantees against political risk - particularly against a possible Petrobras pull-out.

Analysts say Bolivia could deliver gas to São Paulo at a highly competitive rate of less than \$2 per 1mBtu, half the ceiling price it would cost to ship Venezuelan or Nigerian

liquefied gas to the region. Bolivia's negotiating position as a purveyor of clean natural gas has been strengthened since the 1992 Rio "earth summit" boosted ecological awareness in badly-polluted São Paulo, according to Mr Muller.

A Bolivian government adviser points out another crucial factor: "The Brazilians have realised that, without Bolivian gas, they'll be suffering energy brown-outs in two or three years."

A similar project for exporting gas to northern Chile is in an advanced stage of planning. The 1,100km Villa Montes-to-Antofagasta pipeline could start delivering to one of Chile's main mining regions by early 1997. A 20-year agreement in principle has been signed between YPFB and Enxco, Chile's state oil company.

YPFB has entered a joint venture with BHP. The two will split equally a 90 per cent stake in constructing and operating the pipeline, while Enxco will take the remaining 10 per cent. US investment bank Morgan Stanley has been selected as financial adviser.

While gas exports to Argentina are already two decades old, and new ventures with Brazil and Chile are presently top priority, exporting electrical energy from Bolivia would be a complete innovation. The idea apparently sprang up only recently when state power company Enfe was being offered to foreign investors.

"We were told our tiny, 750MW internal market is not attractive enough for overseas bidders," says Mr Gonzalo Chavez of the energy ministry. "Investors are seeking opportunities to convert Bolivia into a major electrical energy distributor for the southern cone."

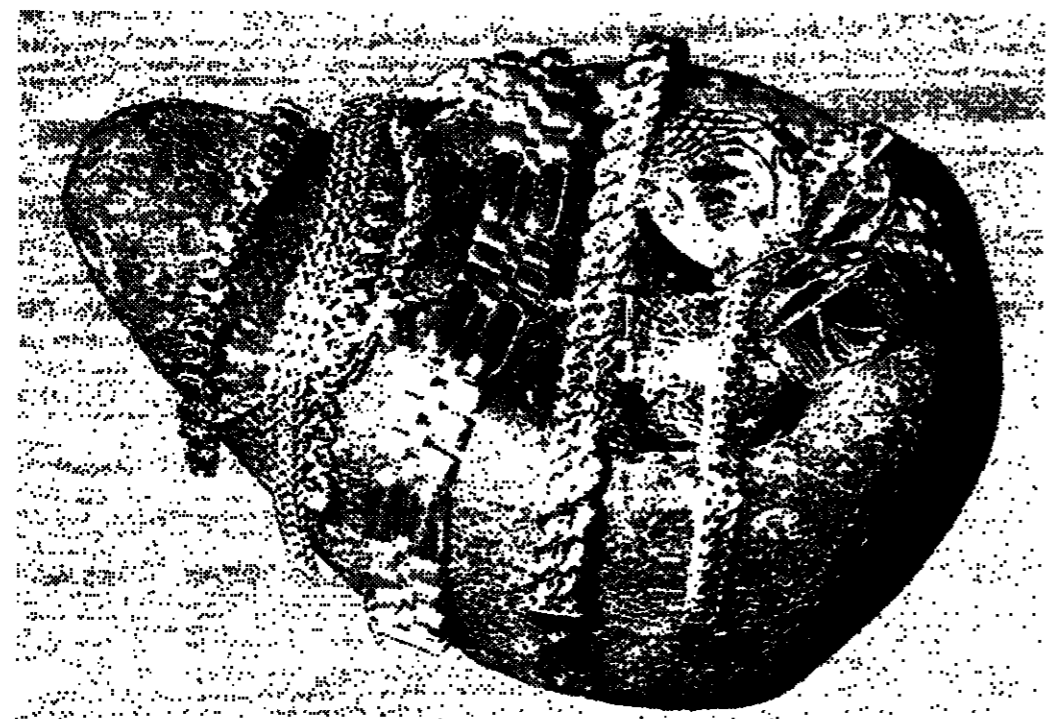
Mr Fernando Campero, a former industry minister and now chief executive officer of Saxxon Capital, a Bolivian stockbrokerage, is more sceptical about this late-in-the-day brainwave. "They invented the scheme of electrical energy exports to speed up Enfe's capitalisation but without proper feasibility studies," he says.

Other experts fear that electricity exports may directly compete with natural gas in little-developed markets.

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The mining industry is undergoing a series of profound changes, writes Sally Bowen

Minerals have always been a mainstay



A tin miner from the Mitum mine near La Paz

Bolivian mining is undergoing a series of profound changes - in the types of minerals extracted, in production techniques and in patterns of ownership.

Minerals have always been a mainstay of the Bolivian economy, but successive price collapses affecting silver, tin and antimony drove minerals exports down to less than one third of Bolivian foreign exchange earnings in 1986. Today, with zinc and gold output increasing rapidly, minerals again account for almost half of export revenue: some \$380m last year.

An estimated 80,000 Bolivians still depend on mining for their livelihoods, some of them literally scratching ore from narrow veins in underground shafts with long, primitive tools. But the open-cast mines and heap-leaching techniques being introduced by foreign concerns in joint ventures with Bolivians point to a different mining future.

"Eight years ago, no one would touch Bolivia," says Mr Charles Bruce, chief executive officer of local mining consultancy Mintec. "Even in 1991, there were only four foreign companies operating here: now there are 40."

Simultaneously, the state is rapidly withdrawing from productive mining activities. While mining giant Comibol was responsible in its 1980-85 heyday for about two-thirds of all Bolivia's tin and zinc output, by last year its share had fallen to 35 and 20 per cent respectively.

Comibol's smelters and refineries are on the capitalisation list. Mines, deposits and exploration areas, meanwhile, are being made available to private investors either via leasing contracts or joint ventures with Comibol to get round constitutional restraints on ownership transfer of nationalised assets.

Only three of Comibol's mines are operational: Huanuni, Colquiri and Caracoles. Continuing losses obliged the remainder to be closed down. Comibol's workforce, which peaked at almost 30,000 in 1984, has been cut back severely - mainly in the second half of the 1980s - to some 2,500, of whom more than 1,000 are employed at the Vinto smelter complex. Cash flow is now positive.

Comibol's most attractive opportunities are in the department of Oruro, on the altiplano south of La Paz. Largest is the Huanuni tin deposit near the town of Oruro, originally owned by Bolivian tin

magnate Simon Patino. Despite its already-long life, Huanuni has some 8m tonnes of proven and inferred reserves and mining experts consider prospects for further finds bright.

Colquiri has good unexploited zinc reserves along with its tin. And the polymetallic San Jose mine, non-operational since mid-1982, could also prove an interesting prospect for zinc and gold; its traditional lead-silver concentrates will acquire new worth if and when the Karachipampa smelter is finally started up.

Comsur (Bolivia's largest mining concern, owned by the Sanchez de Lozada family and now in association with Rio Tinto Zinc) will be the first private company to commence joint production with Comibol. Comsur-RTZ has put up \$15.8m for a lead-zinc concentrator at Comibol's under-exploited Bolivar deposit. Profits from the 15,000 tonnes of concentrate, the projected output from next year onwards, will be split 50-50.

"We've found Comibol to be very good partners," says Comsur's CEO Mr John MacLean. "Reserves are better than expected: we're on budget and on time."

Part of the attraction for foreign companies is the modern 1991 mining code which guarantees equal treatment for foreign and national companies and free remittances of profits abroad.

Foreigners may now also - in joint ventures with Bolivians - explore and develop the previously prohibited but potentially rich zones within 50km of Bolivia's borders.

The code is being further modified to improve the present chaotic claims procedures and to clarify certain elements of tax law. Mr Gonzalo Barrientos, under-secretary of mining, is confident that these provisions and promotion of joint ventures with Comibol will boost minerals exports earnings to \$800m within five years - "and that's without factoring in new exploration," he says.

In the brave new world of Bolivian mining, traditional tin and tungsten have a declining role: tin earned just \$83m last year, down from the 1981 peak of \$266m (even though gross production is little changed). Zinc, however, is on an upward path: last year's sales of \$120m represented 16 per cent of total Bolivian export earnings. And revenue from gold should outstrip zinc by next year.

To date, exploration has been restricted to the so-called "Cordillera Real", the traditional silver and tin-mining zone. But new companies, in search of precious metals, are concentrating on the western Cordillera and the pre-Cambrian and greenstone belts east towards the Brazilian borders.

Among other diversification possibilities, Bolivian miners are once again talking seriously about developing their iron reserves. "El Mutun" is a 40,000m tonne deposit - one of the world's largest - with between 30 and 50 per cent iron. It is located in Bolivia's Busch province, some 600km east of Santa Cruz on the border with Brazil.

El Mutun's potential has been known for decades but development has been limited to small-scale open-pit exploitation due to local power and transport problems. All operations are presently suspended.

A Brazilian-Japanese consortium, however, is reviving a large-scale exploitation project. And the Latin American Integration Association (Aladi) has recently proposed construction of iron and steel plants nearby to serve Bolivia and export to Argentina, Uruguay and Brazil.

Gold crops up in some of Bolivia's most unlikely-looking settings. The promising Don Mario deposit, jointly owned by Billiton of the US and Bolivia's Emusa, juts out starkly bare above the lush surrounding vegetation of the eastern jungle. The rich Inti Raymi gold mine, Bolivian-run but now majority owned by Battle Mountain of the US, lies on the barren plains of the Altiplano. Lifeless but for a few small herds of vicuñas.

Inti Raymi claims to be South America's most modern and technically advanced gold mine. It is also one of the largest, with 1994 output expected to top 300,000 ounces.

"It's acting as a magnet for other prospective investors," says Mr Charles Bruce of Mintec, a private mining consultancy which operates in Bolivia in association with Minproc. Mr Bruce has been evaluating for clients more than 150 claims in Bolivia's western cordillera, hitherto neglected by miners. He is "convinced we'll see at least eight gold mines developed in this area."

Bolivia's gold output, an estimated four tonnes in 1991, is already about three times that

now - "and likely to triple again in another five years," says Mr Bruce.

Inti Raymi started back in 1982 as Bolivia's first small open-pit operation, leaching oxides for gold and silver. By 1986, it was producing a relatively modest 30,000 ounces of gold a year. But for Bolivians, accustomed to traditional underground mining, Inti Raymi's technology already represented a quantum leap.

Just two years ago, Battle Mountain increased its stake to 88 per cent. An investment of \$160m (including \$40m each from the World Bank's International Finance Corporation (IFC) and Opic, plus \$15m from CAF, the Andean Development Corporation) permitted construction of an agitation leaching plant and a vast 2.5km-diameter tailings dam designed by Knight Piesold.

With 23 grams of gold per tonne of ore and production costs at \$220 an ounce, Inti

Raymi is attractive business. In this, its first full year of operation, sales are expected to top \$105m. Next year, a new recovery plant will boost output to some 320,000 ounces.

Inti Raymi's success has helped stimulate investor interest in Bolivian gold. In early October, three foreign companies won concessions for a total of 175,000ha of potentially attractive gold deposits, owned but never developed by state mining company Comibol, in Bolivia's western cordillera.

One section went to American Barrick, another to La Barca (a Battle Mountain joint venture with Emusa) and the third to Samex, a new Canadian-Bolivian joint venture. The three best off bids from Auspach of Australia, and Orvana, Echo Bay and Teck, all of Canada.

The other facet of Bolivia's incipient gold bonanza is hundreds of kilometres from the ore deposits. Perched above the

modern city of La Paz lies a sprawling, often ramshackle town known simply as "El Alto": the heights. Most of El Alto's inhabitants are country folk, escaping the crushing poverty of the barren Altiplano. Many of them are miners and their families, refugees from the mid-1980s tin crisis which threw tens of thousands out of work.

Set amidst tyre repair shops and small grocery stores, down an unsurfaced side-road, is El Alto's response to the unemployment problem: a collection of buildings where 400 youngsters make gold jewellery for export. This year, this company, Orbol, will export bracelets, earrings and gold chains worth nearly \$100m.

Located in the nearby industrial free zone of El Alto is Christies, a joint venture between Bolivian entrepreneur Ms Christina Leon and Italian jewellery makers Gori & Zucchi. Christies employs some



Gold output has tripled since 1991. Workers unload rock at the start of the extraction process. Picture: Rickey Rogers

600 in its main factory with another 1,400 outworkers in surrounding villages who painstakingly thread tiny links for gold chain necklaces.

"Gold jewellery has been an enormous success story," says Mr Carlos Morales, trade and industry minister. In the first half of 1994 alone, exports in this category earned Bolivia \$53.8m, more than three times

the revenue for the same period last year. And most of that comes from a handful of factories and small workshops in La Paz.

Orbol started operations almost six years ago. The initial stimulus came from the "Ritex" law which allows temporary duty-free import of goods to be re-exported under the "maquila" process.

"At first, we imported 100 per cent of our gold as wire from the US, transformed it into jewellery and re-exported," says Mr Jesus Sillerico, general manager. "Now we're buying 85 per cent of our gold locally from small producers and co-operatives. Most of that used to leave Bolivia as contraband with no benefit to the country."

Orbol's gold jewellery is aimed at mass market, distributed through some 40 wholesalers mostly within the US. The gold is lightweight and hollow but workmanship is good quality. At start-up, Orbol brought in craftsmen from Mexico and Peru to train locals.

Orbol and a handful of similar outfits now employ thousands of Bolivians, almost all young, often straight from the countryside and in their first jobs. Working conditions are unsophisticated but relaxed and workers are apparently content with the \$100-\$120 they can take home each month.

Mr Sillerico says that even at these wages, profit margins are slim. The tax drawback system, he says, returns to exporters the equivalent of 5.4 per cent of sales; profits are maybe 1.5 per cent.

"We're doing what the country needs most - providing work and earning foreign exchange," he says. "But we couldn't survive without incentives. The jewellery export business will continue as long as the government doesn't change the rules of the game."

Sally Bowen

Bolivia, Sustainable Development in a New Society

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BOLIVIA VI

Stephen Fidler explains the capitalisation process

Cornerstone of reform programme

President Gonzalo Sanchez de Lozada calls capitalisation the cornerstone of his government's reform programme. It aims to shift companies responsible for 12.5 per cent of Bolivia's gross domestic product to the private sector.

But the idea is not to sell the six state companies involved directly to private buyers. It is to entice foreign investors to make investments in them in return for ownership, typically, of half the company. The remaining portion - apart from a small distribution to workers - will be distributed to an estimated 3.8m Bolivians as pensions contributions.

This, it is hoped, will prevent opposition to the proposal from Bolivians who - according to opinion polls - associate privatisation with a loss of national sovereignty and corruption.

The idea is to stimulate investment and thereby boost growth. The government estimates that these reforms should allow growth to rise steeply to 7 per cent by 1999. Without this, and other reforms, it estimates growth of 4.7 per cent.

The proposal to capitalise, rather than

privatise, has some disadvantages. In the early years, rather than bolster government finances, it worsens them - because no revenues are received from the sale of the company. This risks a short-term increase in the government's already heavy debt burden. Some potential investors are also likely to see the mechanism as excessively complicated.

The project has many hurdles still to overcome. A raft of legislation is needed following the overall capitalisation law passed this year: laws to establish an overall regulatory system for the capitalised companies, on the electricity, telecommunications and hydrocarbons sectors, a tax reform, adjustments to the mining code and a transportation reform are all required.

After this, a law for pension fund reform is needed. Opposition from employees, trade unions and other interest groups must also be surmounted. The government will lastly need to demonstrate financial success.

The keys are the first capitalisation, of the electricity company Ende and of the oil company YPFB - alone responsible for 9 per cent of GDP. Officials admit there may be difficulties in capitalising the state airline, the railway and the mining assets.

However, the impression that many Bolivians have - that the public sector companies are profitable and contribute to the budget is false, says Mr Fernando Candia, the president of the central bank.

Although the companies run an operating surplus of about 0.8 per cent of GDP,

debt servicing costs are equal to 2.5 per cent of GDP, producing a net deficit of 1.7 per cent.

The one-time costs associated with the capitalisation and other reforms will raise the budget deficit in 1995 and 1996.

According to a \$140m three-year loan agreement signed with the International Monetary Fund last month, the deficit will rise to 4.4 per cent of GDP next year, and closer to 5 per cent in 1996, from an expected 3.3 per cent this year.

Eventually it is hoped that increased tax revenues from the capitalised companies will more than make up for the initial shortfall.

Mr Edgar Saravia, capitalisation secretary, says that the capitalisation pro-

gramme is about six weeks behind schedule, but believes that by July next year, the first stage of the programme - the handover of the companies to foreign operators - should be complete.

The remaining shares will be held in trust until the pension arrangements can be established, to allow them to be distributed among every adult Bolivian. This will not be an easy task, in part because the state has no record of the names of a majority of its citizens.

The government agonised over whether to take the time to legislate the reform - as the World Bank was urging - or whether to move more rapidly, as the Argentine government had in its privatisation programme, by presidential decree. "Bolivia is not a country where people

look at the outset to make their investments. To the degree that we can give outside investors more stability - for example through legislation - we think we will be more successful," said Mr Saravia.

Problems in establishing satisfactory regulation of the Argentine companies after privatisation helped to persuade the government that it should first establish regulatory regimes before the companies were moved to the private sector.

Capitalisation will not necessarily stop with the sale of existing companies. Mr Saravia says some of the money raised by the flotation of Cochabamba Power and Light, now a subsidiary of the state electricity company, Ende, will be used to start a long-awaited project to drill a tunnel through the mountains to bring water to the parched city of Cochabamba.

Foreign government donors were to be asked to consider matching the expected \$12m funding with a similar amount. Then, once the drilling is complete - no private sector investor is likely to take on the drilling risk - the whole Misticumi project may be capitalised with a private sector investor.

Enaf metallurgical plants

Details under discussion

The Enaf-Vinto metallurgical smelter complex just east of Oruro, is close to Bolivia's principal tin mines. Huanuni and Colquiri, owned by the state mining company Comibol. Between them, the two produce some 7,000 tonnes of tin concentrate a year - of a national total of about 18,000 tonnes.

Comibol officials expect tin concentrates output to rise to anything between 23,000 and 39,000 tonnes after Huanuni and Colquiri are transferred to the private sector through joint venture or leasing agreements.

Vinto is a Comibol subsidiary. Because it was never nationalised, there is no constitutional obstacle to transfer of ownership.

Rationalisation has cut the workforce sharply to about 1,000 from the 3,000-plus employed in the mid-80s while productivity in certain areas, such as the tin smelter, has increased many times over.

The German government has donated DM10m for environmental control project.

The Vinto complex comprises three metallurgical plants, two for tin (high grade

and low grade) plus an antimony smelter. All came on stream in the 1970s.

The high-grade, German-built smelter uses the fuming process, which allows treatment of complex concentrates such as Bolivia's in a single stage.

"Vinto is good business, it requires little new investment and enjoys a high international reputation - the Enaf trade mark for 99.95 per cent pure tin is known worldwide," says Mr Carlos Morales, adviser to Comibol.

Antimony production was recommenced in mid-1990 after heavy operating losses caused a 4½-year stoppage.

Bolivia has traditionally been the world's second-largest antimony producer after China and ahead of the former Soviet Union and South Africa.

Output, at some 6,000 tonnes a year, is less than half of that produced a decade ago, however.

An interesting item on Comibol's books is the Karachipampa lead and silver smelter and refinery, built in the mining department of Potosi in the early 1980s by a German-Belgian consortium.

The complex cost \$147m and installed capacity is for 51,000 tonnes of concentrate a year.

Karachipampa was hampered by problems at its scheduled 1988 start-up.

Bolivia's lead concentrate output slumped to levels inadequate to supply the smelter, while the Soviet Kivcet technology used for the smelting process was seriously questioned.

As a result, Karachipampa never went into operation.

The panorama is now somewhat brighter. Lead concentrate production is on the increase with some 25,000 tonnes projected for next year; and the Kivcet process has been given the metallurgical green light, with several western countries now employing it.

According to Mr Morales, the plant's unused machinery and equipment has been well maintained and is virtually ready to go.

The government has assumed all Karachipampa's debts. A private sector operator would be free to enter into a joint venture or lease option for Comibol lead-silver mines such as San Jose or San Vicente, or to buy from private producers the area.

Precise details of capitalisation are still under discussion.

The Vinto smelter and refineries could well be offered as separate packages along with complementary Comibol mining deposits to ensure a raw materials source.

Sally Bowen

YPFB petroleum company

Energy wealth wasted

It is not only the local coca growers that have put the sub-tropical Chapare region near Cochabamba under threat. Oil and gas fields discovered in 1993 and developed by the still state-owned petroleum company YPFB are turning the Chapare into an ecological danger zone.

Campo Carrasco, 300km west of Santa Cruz, along the coca trail, is typical. On one side of the road, a seedy night club advertisement offers engineers, coca-growers and drug dealers "pleasant company". Opposite, a 7km side-road comes to a less pleasant end - a gigantic gas torch protruding from the lush vegetation, throwing out scorching flame, testimony to decades of mismanagement by historically corruption-riddled YPFB.

Day and night, and not just in the Chapare, gas from YPFB wells is burned off. As much as 20 per cent of Bolivia's non-renewable hydrocarbons wealth, instead of being reinjected or transported to final consumers, goes straight into the atmosphere.

"It's bad planning by previous administrations," says Mr Mauricio Gonzalez, YPFB's Oxford-educated president, appointed when the new government took office in August 1985. He is charged with capitalising Bolivia's most important state-owned company.

"Capitalisation is a highly expedient and cost-efficient way of financing the \$1bn minimum YPFB needs over five years for upstream development," says Mr Gonzalez, who prefers to describe the state's quasi-monopoly as a "dominant position in the local market".

Bolivia's only hydrocarbons export is natural gas to Argentina worth \$120m a year. National production shortages meant oil-and-gas-rich Bolivia was obliged to start importing diesel fuel in 1993.

YPFB is far and away the country's largest company. Its 14,900-strong workforce produces some 400 cu ft of natural gas and 27,000 barrels of oil a day. Revenue from YPFB is central government's single most important source of income; militant YPFB unions its biggest headache.

Mr Gonzalez says YPFB's new partner will inherit the job of restructuring the workforce: so far it has been reduced by just 800.

The YPFB capitalisation timetable - and its eventual price tag - will be dependent on negotiations over new gas markets in Brazil and Chile, on a new hydrocarbons law and on passage of deregulatory and environmental norms. "These are exciting times - we're moving ahead terribly fast on all fronts," says Mr Gonzalez, who aims to have the capitalisation process completed by mid-1995.

Richard Bauer reports on small privatisations

Elfec is a special case

No fewer than 72 Bolivian state-owned companies out of a total of 160 will come under the hammer in the next few months. Companies controlled by the armed forces or local municipalities, and those directly dependent on ministries remain untouched for the time being.

"The companies to be privatised are small to medium-sized so the transaction costs involved make capitalising them unfeasible," says Mr Jorge Harriague, director of Bolivia's privatisation programme, the low-profile complement to the government's ambitious capitalisation project.

"Their economic impact may be pretty marginal, but we have to privatise fast and get the state out of commercial activities once and for all."

Companies to be offered to

private investors in straight sell-offs range from run-down hotels to dairy plants, from animal feeds processing factories to a small airline. The most expensive carries a price tag of about \$12m, but many are virtually bankrupt and have book values of less than \$1m apiece. The whole package could fetch between \$45m and \$55m, according to Mr Harriague.

Investor interest centres on half a dozen promising concerns. Hilerideria Santa Cruz, a yarn producer which cost \$50m to build, and a sugar mill in Bermejo, top the list. The dairy plants in Santa Cruz, Cochabamba and La Paz, plus two cement factories in Sucre and Tarija, are also expected to be keenly contested.

Bolivia's privatisation commenced under the previous administration of Jaime Paz

Zamora when 24 public companies dependent on the regional development corporations were sold by auction. The modest proceeds - some \$20m - went, as the law requires, into social spending. Nine others were simply liquidated. No sales have been made so far under the Sanchez de Lozada government.

A special case is Elfec, the relatively efficient state-controlled Cochabamba power distribution company. Ninety per cent of Elfec's shares, worth some \$32m, is scheduled for flotation on the London and La Paz stock exchanges in the next few months.

"This will help kick-start the capitalisation programme; it's a significant milestone in the development of Bolivia's capital markets," says Mr Peter Earl, a director of the Fieldstone Group of London, one of

the architects of the Elfec offer.

Elfec has had private shareholders ever since it was founded in 1908 by the Bolivian Suarez family. Ende, the state electric energy producer en route to capitalisation, presently holds 70 per cent of Elfec. The Cochabamba municipality holds a further 22 per cent; smaller municipalities 4 per cent; and the remainder is split among some 3,000 shareholders.

Ende and the city of Cochabamba are expected to dispose of the bulk of their holdings. Cochabamba's city fathers plan to use the cash to embark upon a long-delayed but increasingly urgent Misticumi project: to bore a tunnel through the Andes and bring water from the Amazonian side of the cordillera to the thirsty Cochabamba valley.

Richard Bauer



Huanuni mine, one of Bolivia's principal tin mines, owned by state mining company Comibol

Picture: Mike Molyneux

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Lloyd Aéreo Boliviano state airline

Attractive traffic rights

Lloyd Aéreo Boliviano (LAB), the state airline, may not be the first, or the largest, state industry to be capitalised, but it may well be the most controversial.

Repeated strikes have indicated labour opposition to the planned sale of shares and transfer of management of the 60-year-old enterprise - one of the oldest airlines in the world.

Perhaps more interesting than the airline's assets - the average age of its nine fully-owned aircraft is more than 21 years - are its attractive traffic rights throughout the hemisphere. LAB presently serves its immediate neighbours as well as the US, Venezuela, Panama, Uruguay and Mexico. Other international routes not in use include those to Germany, Spain, Holland, Cuba, Colombia and Ecuador.

LAB had total assets in 1993 of \$153m, yet booked total long-term liabilities of \$56m. The company's 1991 net profit of \$2.5m dropped to a net loss of \$11.8m and \$13.3m in 1992 and 1993 respectively, largely due to big spending on marketing.

The state holds 97.83 per cent of the shares in LAB, with American Airlines owning 1 per cent and a nominal labour participation equalling 0.1 per cent.

By mid-November the Ministry of Capitalisation will have chosen an investment bank and a regulatory adviser. The final bid on an expected 48 per cent share in LAB is to be made between March and May 31 of next year. According to Mr Javier Burgos, secretary of capitalisation and investment, potential buyers will have no interest in a majority share because they would lose the usual benefits conferred to a national airline both domestically as well as in international air traffic agreements.

A rather innovative aspect of



LAB had total assets of \$153m in 1993 yet booked total long-term liabilities of \$56m

the LAB capitalisation programme is the variety of investment options given to the prospective buyer. Besides making a cash offer, investors can bid in form of goods or services, such as aircraft or reservation systems. "With this added benefit we hope to

Due to competition by the private Aerosur, LAB's privatisation would not violate existing anti-monopoly legislation

attract even more potential investors," says Javier Burgos. Unlike the other state enterprises on offer, LAB's sale does not require any additional legislation. Due to competition by the private Aerosur, which inaugurated service two years ago, LAB's privatisation would not violate existing anti-monopoly legislation.

LAB holds a 65 per cent share of Bolivia's international airline market ahead of American Airlines and Brazil's Varig. In the domestic market, LAB has been losing ground to Aerosur but still holds a 59 per cent share.

Government officials further underscore this carrier's low labour costs, its highly trained technical staff, and its potential to improve aircraft utilisation. With Bolivia's strategic location in the centre of South America, its promoters envision the under-employed airport of Santa Cruz becoming a type of regional hub. President Gonzalo Sánchez de Lozada says "it would be a natural hub," but admits, "we don't generate enough of our own traffic." He adds: "We have this \$250m airport in Santa Cruz, which only operates 15 minutes per day."

A previous attempt to sell LAB in 1992 failed, due to what

the government deemed was an unacceptable offer by Iberia.

The Spanish carrier had allegedly offered \$20m for LAB with an option to withdraw from the deal within a two-year trial period.

A recent government invitation to interested buyers to attend a "brainstorming session" found little response and had to be cancelled.

Yet Mr Edgar Saravia, senior official at the ministry of capitalisation, says the problem is not LAB, but rather that many European airlines are busy themselves in restructuring their operations, while others are simply cash-strapped.

"In January we will aggressively hit the campaign trail, perhaps having to offer other finance options or a management contract combined with a lower stake in the company."

Raymond Colitt

Ende electricity company

Transfer is seen as critical

Electricity company Ende will be the first of Bolivia's state-owned assets to undergo the novel capitalisation process. Transfer of 50 per cent of Ende to a private operator-investor - optimistically scheduled for February 1995 - is seen as critical for the capitalisation programme.

"Ende has to be a great success," says Mr Edgar Saravia, capitalisation secretary. "It'll be used as a concrete example to convince Bolivians that capitalisation equals a new society. We're choosing a strategic partner for the Bolivian people, not just selling a company."

Schroders, the UK-based merchant bank, has been selected to help identify the right bridgehead for Ende in what one state official calls this "electric marriage". Thirty-one foreign companies, mostly from the US and Europe, have pre-qualified to bid, led by cash-rich and expansionist Chilean operators. Best guess estimates put the bid price at between \$250m and \$300m.

Mr Ramiro Bolland, general manager of ICE, Bolivia's largest construction company which might hook up with a foreign company to bid, considers Ende technically well-managed and, with just 500 employees, lean and potentially profitable. Electricity consumption has been growing steadily at about 6 per cent a year for several years.

By late October, the energy ministry was into the fifteenth draft of a new law designed to end the effective duopoly on

electric power generation shared between Ende and Cobee, the La Paz-based private company. Cobee is 70 per cent controlled by the North American holding company Leucadia; small shareholders have the remainder.

Ende produces half of Bolivia's electricity; Cobee a third. Of the total 750MW, some 300MW is hydroelectrically generated, the rest coming from largely environmentally-friendly, natural gas-fuelled thermal plants. Distribution is in the hands of three principal local companies, with Cobee handling 37 per cent.

Capitalisation is designed to meet classic World Bank privatisation parameters for creation of competition. Generation, transmission and distribution will be managed by separate companies.

Initially, the government will retain control over the transmission system while Ende's generation plants are grouped in three regional packages for capitalisation.

After some grousing, Cobee is expected to accept the division of its generation and distribution arms in the pursuit of competition. The three regional generation companies will have a three-year option on developing strategic energy export markets.

"Growing electricity demand in the border zones of Brazil, Peru and northern Chile make that prospect look very attractive," says Mr Claude Bessé, a former

Ende general manager and some-time World Bank consultant.

According to Mr Saravia, changes in the law will ensure that no consumer has to pay a service connection charge in advance. The Santa Cruz co-operative, for example, presently charges \$500 to put the first power outlet in a home.

While this may help overcome regional consumer resistance to the central government's radical capitalisation plans, the co-operatives themselves may not be so enthusiastic. Some, such as that of Santa Cruz, have ambitions to expand into generation - prohibited under the new law.

Other criticisms concern the World Bank-designed plan to dismember an already tiny generation system into three. "The boys from Washington are applying the Argentinian model but forgetting that Bolivia's entire system generates 750MW against Argentina's 18,000MW," says Mr Julio Leon Prado of ICE, the company that built most of the Bolivian transmission and distribution grid. "The packages are too small for a foreign investor."

At 320kWh a year, Bolivia's per capita energy consumption is one of the lowest in the continent: 44 per cent of Bolivians, mainly in rural areas, have no access to electricity. Government and World Bank advisers believe capitalisation is the surest way to improve those statistics.

Richard Bauer

Enfe state railway system

Tough challenge for team

Along with the state airline, one of the toughest challenges for Bolivia's capitalisation team will be Enfe, the aged state railway system. Resistance may also come from the 4,000 workers still on the company payroll despite successive lay-offs of more than 3,000 employees over the past three years. The World Bank estimates that \$27m will be required for post-capitalisation severance payments.

Bolivian railways date from 1877 when construction started on the first Antofagasta stretch. The La Paz to Arica section was inaugurated in 1918 after settlement by treaty of the war between Bolivia and Chile. The eastern section, joining Santa Cruz to Santos in Brazil and Rosario in Argentina, dates from the 1940s and 1950s. The three sections have a total 3,466km of track.

The national railway company Enfe was created in 1964 - at which time the company operated 102 steam locomotives. Only in 1976 was the switch made to diesel-electric engines. In the run-up to capitalisation, the fleet comprised 57 locomotives, only 34 of them operational. Of the 134 passenger carriages, less than two-thirds were serviceable, and last year Enfe carried only 750,000 passengers.

Minerals transport has tradi-



Trackside improvements at Puerto Aguirre terminal

tionally been Enfe's staple, accounting for some 40 per cent of the 1.4m tonnes of freight hauled last year. Enfe has made some attempt to move into the fast-expanding business of transporting soya. But much of its capacity is in the form of converted box cars - there are no hopper trucks - and soya producers complain bitterly about the quality of service. Wood, meanwhile, is hauled almost exclusively by road.

If, as Bolivian government officials and many entrepreneurs believe, the "inter-oceanic corridor" - from the Atlantic (Santos in Brazil) to

the Pacific (Arica in Chile) - represents their country's trading future, the most immediate investment will have to be some \$200m building the missing rail link between Cochabamba and Santa Cruz.

Jica, the Japanese international agency, came up in 1981 with a master plan for upgrading the Bolivian railway system. It envisages investment of \$1.46bn over 30 years and predicts an internal rate of return of 11 per cent.

Building the missing Cochabamba-Santa Cruz link would be a priority, as would the extension of the eastern network to Puerto Busch, now

projected as the principal outlet for Bolivian exports to the Atlantic via the Paraguay-Parana waterway.

By late October, discussions were still in progress about whether to split Enfe into three for capitalisation or offer it as a complete package. Most international consultants have advised against including the track itself in the transfer. Enfe is unlikely to fetch its book price at capitalisation and retaining ownership of the track would explain away an otherwise unacceptably low offer.

"It's a politically sensitive issue," admits Mr Edgar Saravia, capitalisation secretary. But he is adamant that the state will have no future role in running the capitalised business: the new operator would simply lease the track under concession and assume responsibility for its maintenance.

Enfe's future shape will depend on the capitalisation team's decision. Smallish regional companies from neighbouring Chile, Argentina and Brazil could be interested if it is divided, while three US companies - Burlington Northern, Conrail and Pacific SouthWest - might be convinced to bid for the railway system as a whole.

Sally Bowen



A microwave radio station at Copacabana, high in the Bolivian Andes. Entel's revenue has grown about 70 per cent over the past five years

Entel telecommunications

Investor interest appears keen

With fewer than four lines for every 100 inhabitants, Bolivia has one of the lowest indices of telephone provision in Latin America. But, as Peru proved earlier this year when it sold off a controlling share in its state-owned telecommunications industry for more than \$2bn, it is growth potential which counts with investors.

Bolivia's long-distance carrier Entel is second on the list of six state companies headed for capitalisation. Mr Doyle Gallegos, an independent consultant with previous experience in the Argentine, Venezuelan and Peruvian sell-offs and now retained to advise on the Bolivian process, describes Entel as a "relatively sophisticated" company. Over the past five years, it has invested some \$150m in satellite and digital equipment - 40 per cent of that coming from multilateral credits.

Entel's revenue has grown about 70 per cent over the same period, with international traffic expanding 30 per cent and national long-distance 20 per cent. Rates are near to or slightly lower than the Latin American average: international calls are \$2.25 per minute plus 13 per cent tax.

Entel billed \$101m in 1993,

producing cash flow equivalent to about 33 per cent of revenue. The new operator will enjoy an "exclusive concession" on long-distance traffic for five years, after which the Bolivian telephone business will be thrown open to full competition.

Capitalisation is complicated by the fact that on-the-ground service has for more than a decade been in the hands of 22 co-operatives nationally. The Santa Cruz co-operative has been in existence for 25 years. In general, the co-operatives have lagged behind in infrastructure investments: many are alleged to be both inefficient and corrupt, "administered by people who know nothing about telecommunications," according to a local expert.

At present, Bolivians wanting a telephone must pay a dismaying \$1,500 installation charge to their local co-opera-

tive. Finding sources of financing is generally difficult for co-operatives so they are unable to meet demand: the average waiting time for connection is a year.

Following the Peruvian privatisation model, Bolivia's capitalisation team is setting specific conditions for Entel's "strategic partner". Existing telephone density is to be doubled within five years, with a target of 13 lines for every 100 inhabitants by the year 2005. That would mean investment totalling some \$1.6bn.

A simple price cap formula will be applied, diminishing gradually on a real-terms basis to oblige the operator to increase efficiency. Currently low local monthly tariffs will have immediately to be raised while international rates will gradually fall.

By late October, it was not

clear how much resistance was to be expected from certain co-operatives.

Government strategy seemed to focus on reason and persuasion, with the back-up legal provision that Entel's new partner will have the right to install parallel infrastructure if local co-operation is not forthcoming.

"Most likely, co-operatives will transform themselves into limited companies," says Mr Gallegos. "Otherwise, their chances of expanding will be slight."

The co-operative snag notwithstanding, investor interest appears keen. Leading international operators such as GTE, American Telephone and Telegraph, Telefonica and South Western Bell - who recently participated in the Peruvian telecommunications sell-off - have attended Entel information seminars. Brazilian and Mexican companies are also reportedly interested in forming consortia with larger operators.

Seven investment banks have been short-listed for the job of promotion and a decision is expected by late November. Pre-qualification of operators is scheduled for January.

Sally Bowen

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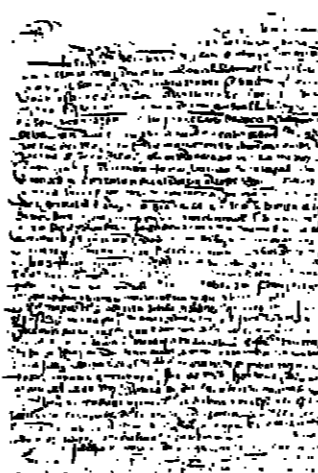
Casa de La Moneda Potosí

After the discovery in 1545 of the fabulously rich silver mountain of Potosí, the mining of coins began in 1575. In the early part of the 17th century, Potosí had a population of over 120,000, about as big as that of Madrid at that time. The mint house building commenced in 1758, took fifteen years for completion and has 250 rooms with 1,350,000 square feet of construction. The museum has unique paintings by the renowned colonial artist Melchor Pérez de Holguín. The UNESCO has declared Potosí as "World Cultural Heritage".



Casa de La Libertad Sucre

The chapel in this building belonged to an old Jesuit Convent and was later used as the Main Hall of the University founded in 1621. The first cry for freedom in Spanish America was heard here on May 25, 1809. In this same chamber Bolivia's first National Assembly met in 1825 and subscribed its Act of Independence.



Archivo y Biblioteca Nacional de Bolivia Sucre

The archive is one of the most valuable in the world related to Spanish Colonial times. Its manuscripts, the oldest dating back to 1546, include the complete collection pertaining to the administration of the "Audencia de Charcas" (1540-1825). There are 6,000 feet of original manuscripts and the library has over 100,000 volumes.



Museo Nacional de Etnografía y Folklore La Paz

This museum occupies a colonial palace built in 1720. It specialises in the study of Bolivia's primitive cultures and the production of popular art and crafts. Its collection includes thousands of valuable textiles and pieces of pottery. The library has rare originals such as the "Art of the Aymara Language" (1612) or the "Art of the Moja Language" (1701).

Banco Central de Bolivia has been looking after the country's cultural heritage with as much care as its international reserves.

BOLIVIA VIII

Raymond Colitt reports on the agricultural sector

Pillar for economic growth

Agriculture remains Bolivia's single most important sector of the economy, representing 20 per cent of gross domestic product, and agro-industrial products are presently experiencing the fastest growth of any exports.

This is not a cyclical trend; agricultural development will be a pillar for economic growth in years to come. The main reason is that Bolivia is discovering that it has comparative advantages in specific agricultural products - and it has enormous tracts of undeveloped and extremely fertile land in its eastern frontier.

Contrary to other tropical regions in the Amazon basin, the fluvial plains in the province of Santa Cruz boast soils extremely rich in nutrients that produce above-average yields. While soybean producers in neighbouring countries harvest an average of 1.5 tonnes a hectare, Bolivian farmers reap 2.5 to 3 tonnes a hectare. The tropical climate allows two soybean harvests a year, of which the larger one is in the wet season between November and April. Prospects are so promising that foreign investors, especially from Brazil and Argentina, are flocking to the area in search of sizeable tracts of land to grow soybeans and other crops. Although some of the soybean production still leaves the country without any processing - soybean worth \$13m was exported in 1993 - large quantities are being processed into oil, flour or animal feed.

Despite considerable growth figures last

year, however, the agricultural sector faces significant difficulties. Interest rates on loans are still high, preventing capital investment in technology. Irrigation is virtually non-existent and dependency on rainfall does not allow for steady returns. This year, a prolonged drought caused estimated losses of \$20m in soybean, wheat, sunflower and fruit production.

In addition, the region's limited infrastructure complicates the transport of agro-exports. Producers complain that transportation to Chile's distant Arica port is costly and that roads are in poor condition. The Paraguay-Parana waterway, which flows into the Rio Plata near Buenos Aires, provides a less expensive alternative shipping route. But the train service from Santa Cruz to Puerto Suarez on the river Paraguay has a limited cargo capacity.

The influential lowland agriculture association, CAO, demands more support from the government as well as a coherent development plan for the sector. Mr Erwin Reck, CAO's president, urges the creation of a ministry of agricultural development and the construction of strategic roads in

the region, as well as cheaper credits.

The small-scale farming of more traditional products by campesinos of the highlands is a sharp contrast to the large agro-industrial production of Bolivia's lowlands. A large percentage of Bolivia's highland rural population ekes out a living in subsistence farming, while others manage to market excess production of foodstuffs.

One product from the largely bleak and agriculturally poor Altiplano that has seen rapid growth - and is now being exported - is the quinoa, a small, disk-shaped grain which has been a staple in the Andes for thousands of years and has recently seen a resurgence as a health food in Europe and the US. Quinoa has higher nutritional value than any other grain commercially available.

The Association of Quinoa producers, Anapqui, has been promoting exports of the product, making Bolivia the world's leading producer. Anapqui, incorporating 3,000 producers of quinoa, claims that 80 per cent of Bolivia's total is exported and this grows by 30 per cent annually.

Mr Francisco Valderrama, head of Anapqui, says that continued growth of quinoa production in Bolivia will depend on the country's ability to satisfy consumer demand for specific quinoa products, such as ready-to-eat cereals or snacks. "Above all we have to capitalise on the advantage in quality we have over other producers to increase and defend our market share," says Mr Valderrama.

Although the US and Canada are producing large quantities of quinoa, they have reportedly not been able to match the size and quality of the Andean product.

Another up-and-coming export product that has been grown in the region for thousands of years are textiles made of alpaca, from a domesticated version of the Andean llama. Exports last year totalled \$4m.

Hand-knitted designer sweaters "made in Bolivia" are on sale in boutiques and department stores in the US and Europe. Mr Gerald Fisher, a US expatriate, who has been supplying US department stores and mail order catalogues for 20 years, says: "Alpaca is a fibre that has awoken. His sweaters, designed by a well known

New York fashion designer and knitted by indigenous women in the highlands, retail for \$195 to \$295 in the US.

Beatrice Patiño's Coats and suits in Alpaca textiles by Beatrice Patiño have been featured in New York as an alternative to garments in traditional luxury fibres such as cashmere or mohair.

Patiño moved her business from 7th Avenue, to a back street in a popular neighbourhood in La Paz.

The Bolivian Export Foundation (FEB), a non-profit organisation funded by the World Bank and the Dutch and Swiss governments, goes beyond merely identifying potential export products to co-finance their production. Unlike other aid organisations, the FEB conducts detailed feasibility studies on specific products before entering into a joint venture with local enterprises or communities.

Mr Romel Antelo, secretary of the directorate, says that while other development non-governmental organisations are often careless about where they put their money, the FEB has to make a positive return on its investment to continue operating. "We operate very much like a private enterprise, carefully studying the investment opportunities," says Antelo. The FEB is presently financing a garlic producing venture with 120 peasant families in Tarija, southern Bolivia, who contribute the land as their part of the deal. The FEB expects to recuperate its \$300,000 investment after the first harvest.

Profile: Caico farming co-operative

Community effort is the key

When Kotet Gushiken arrived in Bolivia in 1954 he had little more than hope in his baggage - hope to begin a new life after leaving behind the economically depressed post-war Okinawa.

With him came some 405 Japanese peasants, each of whom was given a plot of land by the Bolivian government as part of a programme to expand the agricultural frontier into the dense jungle that still predominated in the areas just north of Santa Cruz.

A mysterious fatal disease and the peasants' unfamiliarity with the tropical soil and climate led nearly half of the recently arrived immigrants to abandon their new homes. Adverse soil conditions forced the remaining settlers to move their community twice before finally founding Okinawa colony in 1956.

Attempts to cultivate cotton and other crops failed in these early stages. Yet today Mr Gushiken sits

in an executive chair in his air-conditioned office in a brand new community centre built with Japanese government aid. He is now president of the Japanese-Bolivian Association with its 730 members.

Mr Gushiken says: "In the early days I never believed we could achieve what we have now - and much of that success is due to a communal effort."

The agricultural co-operative Caico, formed by the colony in 1971, today controls 10 per cent of the country's soybean production and 35 per cent of total soybean seed production.

It was this community that began experimenting with the cultivation of soybean back in the early 1970s, before the bean became the number one agricultural export in Bolivia.

Land and machinery remain private property in the community but Caico provides technical assistance, long-term planning and collective bar-

gaining with wholesalers.

Quick to realise the long-term benefits of adding value to its basic product, Caico soon began processing soybeans on site.

First, a seed processing plant was installed, then facilities to extract oil and produce soybean-based animal feed.

With a long-term outlook of secure but steady growth, Caico presently invests heavily in training its staff.

Youngsters in the colony are given a scholarship and sent abroad to be trained as agronomists, veterinarians, business administrators and lawyers.

"In order to secure our future we need to invest in our people, maintain our high quality standards and diversify our product line," says Mr Masayuki Kudaka, general manager of Caico.

Caico is now studying the mammoth task as a crop with a large potential for growth. Tree nurseries are already in place but the first harvest is still two years away.

The latest success, though, is the co-operative's own supermarket in the city of Santa Cruz as a direct outlet for its products.

Says Mr Kudaka: "With help of the co-operative, we achieved together what we never could have done on our own."

An important factor in the community's perseverance has been the maintenance of cultural traditions. Japanese sociologists who recently visited the colony say its people have preserved their traditions more than their brethren in Okinawa.

Raymond Colitt

Rural development programme

Income is gradually rising

The town of Comanche in the province of Paces - some 120km south of the capital La Paz - on the bleak and windswept Altiplano - is the site of an unusual sustainable rural development project, writes Raymond Colitt.

Only a few years back, the population of Comanche was struggling with daily survival. The inhospitable lands did not allow for any type of agriculture. Water is scarce during 10 months of the year and the temperature at 4,000m above sea level often drops well below zero. Well-water in the area is salty and unsuitable for human consumption.

The Pacajes, a pre-Incan indigenous group, had once earned their living as merchants, bringing goods from the Pacific coast. The coming of the railway meant that their way of life changed drastically,

forcing them to rely on agricultural activities. Yet even cattle ranching, the only source of income, was not feasible on a large scale because of the meagre vegetation.

The villagers of Comanche, like those in many other towns throughout the Altiplano, left home to look for jobs in the city, to practice slash-and-burn farming in Bolivia's lowlands, or to join the multitude of coca-growers in the sub-tropical Chapare region.

Then, in 1983, a non-profit aid organisation, Semta, launched a rural development plan. Unlike countless other aid projects, this one introduced simple and inexpensive technologies to promote environmentally sustainable and economically yielding agricultural practices.

One of the earliest and most successful projects was the

construction of a new type of greenhouse - a low, four-walled building covered with an "agrofilm" that allows the temperature to rise to 35°C, while protecting the plants from strong winds.

Other low-cost, high-impact projects include the construction of ditches and dams to retain and channel rain water, which is otherwise wasted and erodes the already thin layer of fertile soil. A programme to recuperate 17,000ha of grassland by sowing native grass seeds is already bearing fruit; the number of cattle able to graze there has increased substantially.

Semta's projects are based neither on hand-outs nor on "top-to-bottom" coaching. Mr Oscar Aguilar Calderon, Semta's executive director, says: "Community participation is crucial in avoiding dependence and in guaranteeing the success of a project." Farmers must, for example, produce and hand over to Semta new seed for the grassland project

- in exchange for which they get barley seed.

High-school children are in charge of reforestation and receive an award for the biggest tree at the end of each year. Management plans are also jointly established between the community and Semta.

Today, the results of Semta's work are clearly visible. Many families are virtually self-sufficient in grains, vegetables and milk. Their income is gradually rising through the commercialisation of cattle-farming and their agricultural skills have improved significantly.

However, one member of every family usually still migrates to La Paz, Cochabamba or Santa Cruz to secure additional income, and the inhabitants of Comanche are still uncertain about the future of their community. But the massive flow of migrants has at least been halted.

The question is whether this type of project can be implemented on a national level.

The Indians: Richard Bauer reports on the majority indigenous peoples

Symbols are important

Mr Victor Hugo Cardenas, Bolivia's vice-president, receives visitors in his ornate office in La Paz's legislative palace. Seating his guests around him, he indicates the most elaborate gilded chair and jokes: "This is my throne." Symbols are important for this first-ever Aymara to be elected to such high office.

Every hour of the day since he was sworn in, Mr Cardenas has worn over his left shoulder a finely-woven scarf of vicuña hair - "except when I'm in the shower," says the Sorbonne-trained educator and leader of the indigenous MRTKL political party.

"A [native] priest gave it to me on behalf of the Bolivian people and told me never to take it off. It symbolises authority and social control." Returning the scarf at the end of his term, Mr Cardenas will have to give account to priest and people of his actions in government.

Mr Cardenas takes his symbolic role seriously. He aims to "build in the political arena a genuinely democratic state where the indigenous, the peasants and the marginalised are not just guinea-pigs for experiments made by the government of the day."

Bolivia, like Peru and Ecuador, is a country in which indigenous peoples are in a majority. Quechua and Aymara are widely spoken.

Whites, proportionately over-represented

in formal business and government, are an absolute minority.

"We have a dream: that the political system which has always excluded the majority will accept us. Where does exclusion lead? Sooner or later to confrontation between Bolivians. Because when the excluded lack channels of expression within the political system, they seek other methods. Indigenous and non-indigenous must unite to transform the structure of our country."

Mr Cardenas has personal experience of exclusion, or discrimination. "My father's name was Pedro Choquehuasi. Pinto, because of his indigenous background he could not enter university. When he married, he changed his name to Cardenas so his children should not suffer the same fate. I can understand why he did that but, today, conditions have changed and I wouldn't do it."

His own wife's experience - she left the teaching profession because she was not permitted to hold classes wearing her traditional Indian clothes - has helped give education a high priority on the list of reforms. Bolivia is moving towards a bilingual educational system where indigenous children will be taught first in their native language, adding Spanish later. Teachers will be permitted to wear traditional dress.

Mr Cardenas hopes reforms such as these will help revert the depressing statistics: children on average take 12 years to complete a six-year course. Not surprisingly, the drop-out rate is extremely high.

While Mr Cardenas is certainly a figure full of symbolism, he appears to have succeeded in escaping the historically non-influential and decorative role of a Bolivian vice-president.

"I don't just sell government policy; I hear the viewpoints and arguments of the excluded and I channel them to the appropriate area in the executive branch where they are dealt with. We want to bring state and society together."

Mr Cardenas argues that even though the state has ignored them, Bolivia's marginalised have notched up many business successes and pressed for a more economically liberal society.

"If many of us have survived, it's because of our strong shared and community ties, even among the migrants to the cities. Goni [President Sanchez de Lozada] has his traditions, his modernity, and I have mine. Together we want to create an alchemy - and so far, it's working."

Bolivia's booming soybean industry and is now the country's largest individual farmer.

"When I expanded to 2,000 hectares, they said I was crazy. But I told them, if you need two tractors for 2,000 hectares, you need twenty for 20,000: it's that simple."

With yields of 3.2 tonnes a hectare, Mr Leon can match the world's most productive soybean farmers. He praises the Japanese settlers in the region east of Santa Cruz for realising the land's rich potential: "They revolutionised alienated Bolivian agriculture, proving how fertile it is."

For Mr Leon, soybean represents the future of Bolivia. "It's a primary industry and best of all, it's forever because it's sustainable. There's business here for everyone." He is lending money, supplying seeds, sharing technology and weather reports with small farmers in a push to get a million hectares of Bolivian lowlands under soybean.

"That means 3m tonnes of beans a year, which is a point of no return," he says. Bolivian soybean, plus the produce from south-west Brazil, will exert irresistible pressure on governments and private companies to get adequate transportation infrastructure in place.

"Joaquin Aguirre is one of Bolivia's great visionaries," Mr Leon acknowledges.

"But I think time will prove him wrong. I believe Bolivia's future lies westwards, out through Peru to the Pacific."



Transforming personal visions into reality: Joaquin Aguirre (left) and Julio Leon Prado

of cargo, mainly soybean.

Like Mr Aguirre, Mr Julio Leon Prado made most of his money in other Latin American countries over a 30-year period - chiefly in power transmission lines and construction.

His many-tentacled Banco Industrial group is now Bolivia's leader in financial services.

But Mr Leon Prado is a frontiersman at heart. Although he is nearly 70 years old, in the past few years he has spearheaded

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BOLIVIA IX

Stephen Fidler reports on developments in the financial sector

Rapid growth from a very small base

Finance is one of the fastest growing areas of the Bolivian economy. Central bank figures show the financial sector growing by 21 per cent in 1992, 14 per cent last year and an estimated 12.4 per cent this year.

According to Mr Edward Derksen, chairman of SHN Multibanco, a Bolivian commercial bank, the country's bigger banks are growing by 30 per cent year.

"With a stable currency and low interest rates abroad, we have had capital repatriation," he says.

Yet this rapid growth is from a very small base. The basic business of banking remains a mystery to a large majority of Bolivians.

Mr Guido Antezana, who stepped down this year as head of the country's banking association, points out that there are only 350,000 deposit accounts in a country of 7m people.

Some 45,000 depositors hold

85 per cent by value of all bank accounts.

"This shows how deep the financial function goes in Bolivia," says Mr Antezana.

The financial sector is only now recovering from the devastation wrought on it during the hyperinflation of the early 1980s, which damaged the credibility of both the Bolivian currency and the banking system.

By the end of 1985, the financial meltdown left the banking system with just \$50m in assets.

Banking assets have since recovered to \$3.27bn at the end of last year and the banks' capital to \$225m. But, says Mr Antezana: "We are barely back to the financial assets that

were held by the banking system in 1978."

Hyperinflation has left another legacy: the banking system's switch to dollars.

The proportion of dollars in banks has grown in recent years as money has been repatriated from abroad and left on deposit in the US currency.

According to the World Bank, 85 per cent of deposits in Bolivian banks were denominated in dollars at the end of 1993, compared with 77 per cent in 1989.

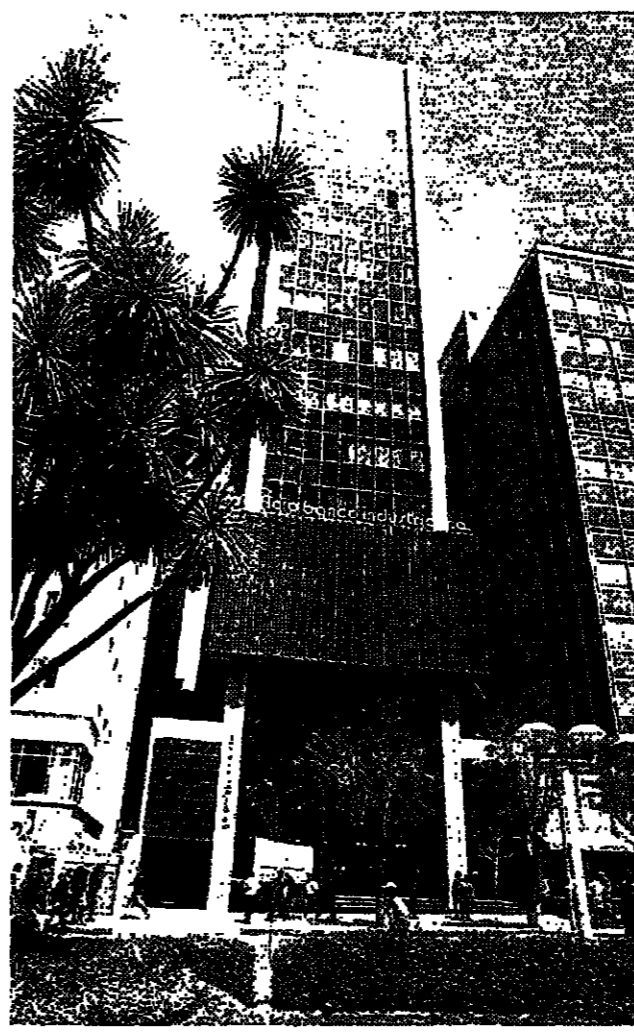
The majority of local currency deposits in the banking system are held by the government.

This switch to the dollar

clearly reduces the mechanisms available to the government and central bank for the control of economic policy.

A report from the economic consulting firm Müller & Associates points out that this - together with the concentration of deposits in a relatively small number of hands - "makes the Bolivian economy more vulnerable to external shocks."

It also leaves the economy more vulnerable to money laundering by drug traffickers. The US government says that the country is still not an important centre for money laundering. Yet it argues that the situation may change because money laundering is not considered a crime, "dollar-



Banking assets recovered to \$3.27bn last year

isation" is advanced and the banking superintendency refuses to share information with agencies fighting drug traffickers.

Better liquidity, the perception that the banking system is more or less secure except for a couple of smaller institutions, and that the country's political and economic risk rating have improved, have all combined to bring down lending spreads.

The country risk premium on dollar deposits is about 5-6 per cent on deposits. Lending spreads are down: interest rates on big bank deposits vary between 9% and 11 per cent, and on loans from 12-13 per cent for the best customers, to 18-20 per cent.

A new banking law, pushed through under World Bank insistence, was passed in 1993. It brought capital requirements to international standards and set up a superintendency of banks. Critics say the superintendency has been given too much discretionary power - and provides a poor example for the regulatory regime which the government intends to set up for newly-capitalised companies.

Mr Antezana says that more than a dozen banks with adequate minimum capital are awaiting a decision to allow them to open, but permission has not been granted or denied. When the bankrupt state banks were formally closed - the last in December 1992 after the World Bank made this a condition of a loan it was granting - the then superintendent was accused of reallocating the accounts in a discretionary manner.

According to Mr Fernando Candia, the central bank president, the central bank has been operating with complete de facto independence in monetary and exchange rates since the present government took over last year. The government is proposing that the independence of the bank in monetary and exchange rate policy should be granted by law.

To activate the financial system fully, especially the securities markets, a number of other legal changes are being proposed. A new securities law

BancoSol: the unorthodox bank

Writing its own success story

BancoSol, not yet three years old and the smallest of all Bolivian banks, is writing its own success story.

Inspired by a "bank for the poor" in Bangladesh, this unorthodox financial institution presently channels through its 29 branches short-term "mini-loans" to 60,000 individuals "who wouldn't normally get through a bank's glass doors," says Mr Pancho Otero, BancoSol's general manager.

BancoSol has set up its unusual headquarters in a bustling, lower middle-class district next door to La Paz's San Pedro prison - a far cry from the marble banking halls of El Prado preferred by its more traditional rivals. BancoSol customers make up 40 per cent of all Bolivian borrowers, but the average individual credit is a tiny \$500. Bad loans are almost unheard of. The first write-off in BancoSol's history was in October - for \$1,500.

Each month, the bank processes 12,000 loans for Bolivia's army of informal entrepreneurs - known to economists as "the self-employed" and estimated to number about 1m.

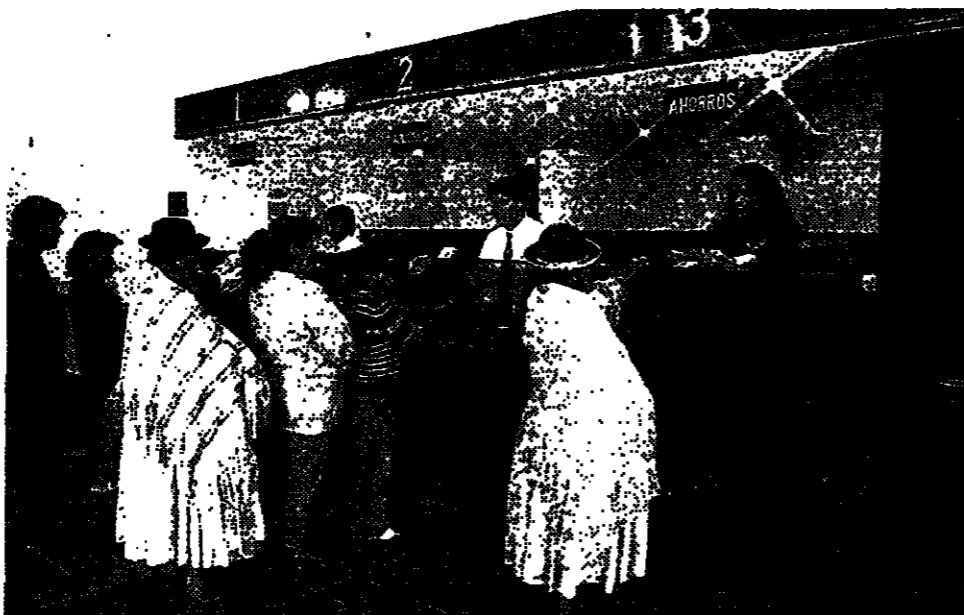
BancoSol's clients, a majority of them women, would never receive credit from a traditionally-constituted bank: they lack the necessary documentation and formal guaran-

The secret of BancoSol's success lies in its policy of lending only to small groups

tees. Forty per cent of all credits go to finance the commercial activities of street-traders, the rest to workshops and small back-street factories.

The secret of BancoSol's success lies in its policy of lending only to small groups of between three and eight who co-guarantee the loan. Alicia Aira, Flora Blanco and Irma Gutierrez are a typical group of borrowers. All three are tough-talking Aymara women, proudly dressed in traditional bowler hats and many-petalled skirts. Their Spanish is deficient but their business talents irrefutable.

All make their living as street-traders, with adjoining pitches in central Avenida Camacho. One sells sweets, another sun-glasses and the third, magazines. In October, they were seeking BancoSol credit for working capital in



BancoSol's 29 branches presently channel short-term 'mini-loans' to 60,000 individuals



Forty per cent of all credits go to finance the activities of street-traders

preparation for the busy Christmas season - \$500 each for eight months at 2.5 per cent a month. Without BancoSol, their only alternative would be an informal loan shark who would charge at least twice that.

"There's an unquenched thirst for credit in the informal sector," says Mr Javier Villanueva, a young university

graduate-turned-stockbroker at Saxxon Capital who wrote his thesis on informal banking practices in Bolivia. He has identified some 50 non-governmental organisations which presently grant informal credits outside the banking law. But BancoSol is the first formalised bank to attend those needs.

Five NGOs are awaiting the

green light from Bolivia's banking superintendency to become authorised lending institutions. BancoSol, meanwhile, aims to lend a total of \$150m in 1994.

With \$7m in capital, BancoSol eschews the mask of philanthropy. "It's run along the same criteria as any other bank," says Mr Otero, who expects profits of \$1m for 1994. It receives credits at commercial rates (between 10 and 12 per cent a year) from other

International organisations such as the IADB's offshoot IIC are shareholders in BancoSol

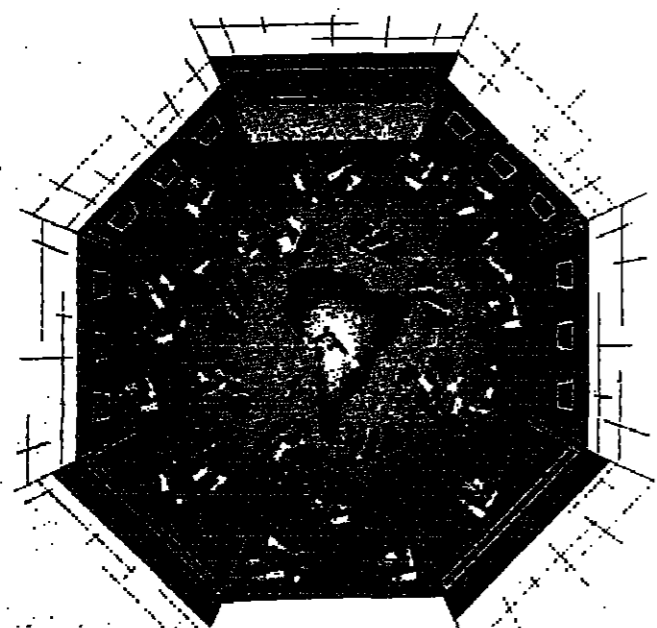
banks and large, liquid companies to increase volume. A pilot programme to attract small savers has got off the ground, bringing in \$4m to date.

International organisations such as Massachusetts-based Action International, the Fundes foundation of Switzerland for the promotion of small enterprise and the IADB's offshoot IIC are all shareholders in BancoSol. But so too, encouragingly, are some of Bolivia's wealthiest businessmen with a social penchant: President Gonzalo Sanchez de Lozada, Mr Fernando Romero, former planning minister, and Mr Julio Leon Prado, a prominent entrepreneur, all have a stake in BancoSol and are ready to offer professional advice.

Richard Bauer

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مركز من الجاهل

BOLIVIA XI

Stephen Fidler assesses the political system

Obstructing the president's vision

The Byzantine workings of Bolivia's tight-knit political system remain a mystery even to long-standing students. Some observers reckon it also remains a mystery to its president, who spent most of his formative years outside the country.

Far from enjoying the cut and thrust of political life, President Gonzalo Sanchez de Lozada appears to view politics as a rather dreary necessity. Like Bolivia's coca problem, politics stands in the way of his grand vision.

Educated at the University of Chicago and a philosophy student who speaks better English than Spanish, he certainly is not from Bolivia's traditional political mould - which is a positive rather than negative attribute as far as most of the public is concerned.

While the popularity of his government has waned in recent months - in large measure because of the way it handled demonstrations by coca growers - it remains by Bolivian standards at reasonable levels. Many Bolivians figure the president, one of Bolivia's most successful entrepreneurs, is rich enough not to have to be corrupt.

Mr Sanchez de Lozada describes himself as "a very modern type of politician". During the 1993 election campaign, he reshaped his campaign - with the help of US political consultants Sawyer, Mill-

er - after close scrutiny of opinion polls. It was out of these opinion polls that the idea of "capitalising" rather than privatising state industries developed.

He has followed public opinion closely since he took office. "We have used a great deal of modern methods - polling, focus groups and in-depth interviews. We've become very effective in not only knowing the questions to ask but knowing how to interpret the answers," he says.

But even some supporters think that the president is too much of a slave to public opinion, and that following the opinion polls has added to indecisiveness and slowed the government reform programme. They argue that to get things done he will have to court public unpopularity - particularly in the middle of his term and since he is forbidden by the constitution for standing for a second consecutive term.

As an example, they cite the fact that public support for coca-growers marching on La Paz to protest against government policy aimed at repressing illegal coca cul-

tivation led him to an about-turn in which he met the leaders of the coca farmers' unions, whom he openly condemns.

Yet Goni - as he is widely known - continues to stand head and shoulders in public esteem above the rest of his political rivals, according to Mr Carlos Mesa, a political analyst and television journalist.

Indeed, most of the parties competing against the coalition led by the president's MNR party are almost all in turmoil.

The MIR, the party which provided the previous president, Mr Jaime Paz Zamora, is viewed by political analysts as highly vulnerable. This follows allegations - brought to the attention of the government by the US Embassy and now being examined by Congress - that the former president and senior members of his party had links with drug traffickers.

The party of former dictator Gen Hugo Banzer - the ADN - has also been weakened by an intensifying debate over the succession to the party's ageing figurehead and founder.

Meanwhile the UCS, the party headed by

brewery magnate Max Fernandez, has been riven by a dispute with the government.

Mr Fernandez pulled out from the governing coalition protesting at the lack of government jobs allotted to his party. However, many of his party members peeled off and continue to support the government, which thereby preserved its majority in both houses of Congress.

Other significant opposition figures include Mr Carlos Palenque, a television talk-show host and populist who heads Condepa. Arguing for a new economic programme which he calls "endogenous development", he so far has been unable to extend his support beyond the poor people of the highland regions.

According to one observer, therefore, "Goni's biggest problem is with his own party." As a modernising president sitting atop an unconstructed political system, he has had to cut deals - that means promising jobs - with key figures within the MNR. Although it is early to judge, many

political analysts believe, nonetheless, that the most likely next president will come from the ranks of the MNR.

Among the names most frequently mentioned are - in the ranks of traditional politicians - Mr Guillermo Bedregal, now a leading legislator in the lower house, and a senator, Juan Carlos Duran. The candidature of Mr Bedregal, who agreed to go as ambassador to the UK before deciding that he should stay on in Bolivia, is weakened by his links to the violent 16-day dictatorship of Alberto Natusch Busch in 1979, when he was minister of external relations.

More technocrats than politicians are Mr Fernando Romero, the entrepreneur and a former cabinet minister ousted by the president, and Mr Jose Guillermo Justinianno, the present minister of sustainable development and the environment.

All this assumes some measure of success for Mr Sanchez de Lozada's programme, in particular capitalisation, which is being relied upon to boost growth. "If capitalisation doesn't work,

everything he does here is dead," says one political analyst.

Failure of the programme, according to one diplomat, does raise the danger of a populist government succeeding the administration. If that happens, he argues that the intervention of the military cannot be ruled out.

In the military - as well as in politics, particularly in the eastern city of Santa Cruz - the influence of secret societies or "lodges" is hard for outsiders to divine. Yet the intervention in the near future of the military in politics is viewed as unlikely by most Bolivian observers.

Indeed, the military is on the face of it today less of a factor in Bolivian politics than it has ever been. The involvement of the dictatorship of Gen Luis Garcia Meza during 1980-81 with drug trafficking and the viciousness of the regime caused long-term damage to the public standing of the army.

Mr Mesa, the political analyst, says morale in the armed forces is low, its effectiveness has been reduced by budget stringency and it has yet properly to define a modern role for itself. The international and regional environment is also significantly less friendly to military governments than it was a decade ago. Furthermore, there is no sign of the emergence of a new military leadership willing or able to take a political role, he says.

For centuries, Bolivia's natural resources have been exploited in a free-for-all manner - usually lacking any environmental concern. Today, the economy is still heavily resource dependent and excessive environmental degradation is common.

The government, in an ambitious plan developed by the new Ministry of Sustainable Development and Environment, is attempting to introduce the sustainable or rational use of natural resources without sacrificing economic growth.

The challenges are daunting. Extreme poverty, powerful agro-industrial enterprises and a general ignorance of environmental issues are the principal causes of Bolivia's ecological problem.

The question is, will the gov-

ernment have the resources and political power to enforce its scheme?

On the winding road from Santa Cruz in eastern Bolivia, trucks head westward loaded with enormous trunks of tropical timber, winding their way up the Andean slopes. These shipments, usually made up of mahogany from Bolivia's vast Amazon rain forest, are destined for export. "Forests cover 50 per cent of Bolivia's territory, providing the wood-working sector with an immense natural resource..." reads an investment brochure for Bolivia. Indeed, the wood

industry, which increases the country's income for each tree felled, is growing steadily. But manufactured wood products, such as doors, make up only only a small proportion of the income from exports: \$7.2m of the \$52m total wood exports last year.

Mr Juan Carlos Quiroga, secretary of natural resources, says: "Brazil extracts the same amount of mahogany as Bolivia does, but by processing it they earn \$200m instead of \$45m like we do."

What makes Bolivia's wood

industry "unsustainable", however, is that virtually none of the wood exported today comes from reforested areas, so that the country's stock of forest simply dwindles until it disappears. In addition, says Mr Gonzalo Flores of the forest conservation programme Probona, "companies evade paying the proper taxes and have management plans rubber-stamped by corrupt officials."

A legislative proposal presently before congress is to institute a 40-year concession on forested areas in exchange for annual fees per hectare of

between seventy cents and \$1.30, replacing the present tax per square foot of lumber, which was easily evaded. Management plans requiring a more reasonable extraction of timber would be reviewed by international consultants and approved by a high-level ministerial council. The idea is that the concession would be revoked if timber companies exploited the area irrationally.

Wood industry leaders are sceptical about the new law. Mr Carlos Miguel Gagliardi, general manager of the industrial wood company Cimil, says: "The per hectare tax will



Forest rangers inspect mahogany trees cut down illegally. Picture: Rocky Rogers

drive up our cost because now we have to conduct expensive inventory studies to be sure of the amount of marketable timber."

Mr Cristobal Roda, whose family made its fortune in wood extraction, says he realises the need for serious forestry management. "We have to think of the future because my factory and our people's jobs are at stake." Yet few wood companies have long-term investments. "The majority operate only with a skidder, a caterpillar and a saw mill," says Mr Gagliardi.

"Our intention is to get these companies to think of long-term strategies rather than just short-term profits," says Mr Juan Carlos Quiroga.

The problem, reply industry representatives, is that so far government policies have not been very consistent. Neither does the proposed idea of concessions promote reforestation, they say. "There won't be much interest in reforestation if we can't own the land," says Mr Roda.

The environment: Raymond Colitt examines forestry issues

Ambitious government plan

Richard Bauer takes a look at the drugs problem

From teargas to handshakes

First it was teargas hurled from helicopters; then dialogue and handshakes in the Presidential palace. That was the government's alternating strategy for dealing with recalcitrant coca-growers.

With annual production of about 90,000 tonnes, Bolivia is - after Peru - the world's second-largest producer of coca leaf. An estimated \$300m to \$600m is injected annually into the economy by the coca-cocaine business with as many as 120,000 Bolivians directly involved either in growing the (legal) leaf or processing the (illegal) basic paste from which cocaine is made.

In the biggest social protest demonstration since President Gonzalo Sanchez de Lozada took office last year, La Paz residents opened their arms to 2,000 downed "cocaleros" when they marched on the capital in September.

Dodging police and military road-blocks, they had made their way from the country's main coca-growing region - the sub-tropical Chapare near Cochabamba - to clamour against stepped-up repression measures adopted by Bolivia's drugs police who are advised by the US Drug Enforcement Administration. They also sought more government funding for alternative agricultural development.

Mr Felipe Caceres, number two in Bolivia's 40,000-strong Cocaleros Federation, says the government's "Operation Dawn" had put the Chapare under virtual state of siege. "They tried to intimidate us. Everyone out at night in the dark or without proper identification was arrested."

The government's objective was to force the coca price below production cost, thus

obliging the cocaleros to eradicate more crops and meet drug treaty obligations with the US, according to Mr Caceres.

Long gone are the boom years of the mid-80s when a 50kg sack of dried coca leaves fetched as much as \$900. "At \$40 to \$50 a sack, coca-growing's become bad business. We can't even pay day labourers to harvest it," says Alcira Perez of Quechua origin, who immigrated to the Chapare years ago. She says she has half a hectare of coca along with a variety of cash crops.

"The record low coca leaf price is an element in the problem," says Mr Oscar Frutos, head of the United Nations Industrial Development Organisation, who oversees alternative development projects in the Chapare.

He believes coca production in Bolivia is decreasing. "Drugs dealers prefer to do business in Peru where repression is less harsh - here, peasants are trapped and haven't switched to other crops."

President Sanchez de Lozada says: "We haven't got rid of the cancer, but at least it's not growing," referring to the coca issue. A senior US embassy official in La Paz, meanwhile, sees a real reduction in the macro-economic impact of the drug economy: "GDP has grown and coca has been contained," he says.

According to the State Department's Agency for International Development (USAID) estimates, six years ago 8.4 per cent of gross domestic product came from coca-cocaine. By 1993 that had dropped to 2.7 per cent. Coca leaf production has stagnated since 1988.

Bolivia's performance on drugs control is far superior to Peru's, says Mr Sandro Calvani, representative in Bolivia for the United Nations Drugs Control Programme. "Drug mafias have not succeeded in undermining Bolivian democracy - and people are not dying en masse as in Peru or Colombia. In the past 10 years in Bolivia, only two policemen and 18 peasants have been killed in drugs-related crimes."

Government officials claim that popular views on coca and the drugs trade are

being manipulated locally by a handful of old-fashioned trade union leaders - mainly laid-off miners - and the communications media who are "romanticising" the issue. President Sanchez de Lozada terms the reaction of his countrymen "devastating; all the people say this is a repressive government [acting] against poor farmers."

Many Bolivians consider straight interdiction activities by the Umopar drugs police are a US-inspired conspiracy to undermine their national dignity and sovereignty.

Mr David Dlouhy, US charge d'affaires in La Paz, unleashed a storm of protest by stating publicly that "coca-growers have turned into drug traffickers. They are directly collaborating with the coca producers and cocaine dealers who sell the drug outside the Chapare."

"When it comes to coca, everyone in Bolivia is playing a game," says a foreign drug expert. "You cannot ignore the existence of at least 7,000 cocaine maceration pits in the Chapare, nor the 20,000 people

directly involved in drugs production."

The apparent hypocrisy stems from the fact that coca is a legal crop in Bolivia, and has served peasants and miners down the centuries as a stimulant when working at altitude. The panorama changed radically - and illegal cultivation grew rapidly - only when cocaine became a fashionable drug in the US and Europe of the 1980s.

Since 1988, Bolivian law has made an innovative distinction between legally grown and harvested leaves destined to satisfy "traditional" demand (that is, chewing, drinking as tea or roasting the leaves) and coca for other purposes which is "hier criminalis" (on the way to illegality).

If this nice distinction is applied, most of the 50,000ha of coca fields in the Chapare are illegal and should be gradually reduced. With the help of satellite photography, the US has identified 40,000ha for eradication. Coca growers get a \$2,000 cash reward for each hectare they eradicate.

The results speak for themselves: between 1987 and 1993, some 25,000ha have been destroyed, with \$50m paid out in cash compensation. But, as if by magic, another 33,000 new hectares have been freshly planted.

Mr Alfonso Alem, government adviser and representative to Conadal, the recently revived alternative development council, says the strategy has clearly failed; the situation is "schizophrenic" and coca-growers "the privileged", he says.

"No region in Bolivia has received so much development aid as the Chapare, and thanks to coca, central government receives balance-of-payments support from the US. The message is: to get money, grow coca."

Asked if his government has a clear strategy for fighting the coca-cocaine business, President Sanchez de Lozada's disturbingly honest answer is: "Obviously not. Who [in the world] has a clear strategy on drugs?"

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LA NUEVA

As part of its promotional activities, the government inaugurated a tourist office in New York on August 1 and plans to open others in Spain

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Women in Ocuri, northern Potosi, don festival finery to celebrate the Day of the Three Wise Men. Picture: Antonio Gaurer

community centres for thousands Chiquitanos.

Eastern Bolivia, with its rich biodiversity has enormous potential for eco-tourism. A large number of local bird species, among them the blue-throated or red-fronted macaws, make it an ornithologist's paradise. Access to, and facilities within, the country's protected areas - which boast a wealth of natural beauty - are rather limited, however.

A lack of infrastructure is also evident at other tourist sites such as Samalpatá, which features important vestiges of an Amazon tribe in the Andean foothills but is still rather unprotected and unexplored.

Raymond Colitt

BOLIVIA XII

City profiles: La Paz and Cochabamba

A delightfully provincial city

Even world-weary travellers should respond to the charm of the 400-year-old city of La Paz and its 1.1m inhabitants squeezed into a natural bowl beneath snow-capped Illimani.

The residential order is the reverse in La Paz to that of many "up-and-down" cities: the poorest live in the inhospitable satellite town of El Alto ("The Heights") at 4,100m above sea level.

The business centre and hotels are located centrally (at 3,600m), where the main Spanish colonial city stood. And the wealthy, in recent years, have withdrawn to the lower slopes, where breathing is easier.

Fortunately, in view of the altitude, doing business in La Paz is physically undemanding: most government offices and corporate headquarters are within easy walking distance of the main street, El Prado.

The westernised occupants of these offices look, think, act and dress differently from the Bolivian man and woman in the street. Compared to most Latin American cities, La Paz is delightfully provincial in its manners and the honesty of its inhabitants.

Shared taxis are the preferred form of transport for the *paceños* and one of the few places where the social classes

mingled and exchanged political chit-chat.

Bolivians are flexible about punctuality for social appointments; less so for business. Bear in mind what Mr Victor Hugo Cardenas, the vice-president who is himself an Aymara Indian - says of his indigenous fellow countrymen, the majority in Bolivia: "They never say yes or no; always maybe. They are never excessively happy or disappointed; never over-optimistic and never over-fatalistic. Balance in all things is the wisdom of the Andes."

● Arriving in La Paz need not be as unpleasant as you have been told. True, at 4,000m above sea level, El Alto is the world's highest big airport - but altitude is 50 per cent in the mind. You may experience slight breathlessness or light-headedness at first until your body adjusts.

Follow the advice recently given by his personal physician to a 74-year-old former UN secretary-general, returning to the "Altiplano" after years of soft, sea-level living: "Walk slowly; eat little; sleep alone". Most important: make no business appointments for the first day, while your red corpuscles are building up. Drink abundant liquids (but not alcohol) and avoid over-hot baths. A

mate de coca (coca tea) on arrival may help stave off *soroche* (altitude sickness).

Business travellers from most European and North American destinations will not require visas. Customs formalities are relaxed and airport staff helpful. A taxi into town (about 30 minutes) costs less than \$10. Cabs have no meters. Don't expect taxi drivers to speak English; they are, however, honest and reliable. A \$20

La Paz's range of eating-houses is expanding

exit tax is payable on departure.

● Hotels: Status-conscious businessmen frequent the Radisson (the remodelled former Sheraton), the Plaza or the Presidente, all of which are well up to international standards. The discriminating traveller may prefer the cooler atmosphere of the newly-inaugurated Rey Palace where suites are huge and half the price.

● Restaurants: Thanks to the expense accounts of a continuing procession of international functionaries, development experts and ubiquitous consul-

ants showing Bolivia the way to "modernity", La Paz's range of eating-houses is expanding. The Utama sky-room restaurant in the Plaza hotel (excellent salad bar) has an established and well-deserved reputation. For a quiet business lunch or dinner, choose between Julian's and La Quebecoise, both in former private houses. Even more intimate is the Restaurant de la Paz, where the tables are set with the owner's own solid silver cutlery.

Newly fashionable among carnivorous Bolivians is the Brazilian-style meat restaurant Brasargent (fixed price; all the meat you can eat). The Casa del Corregidor (Swiss management but Bolivian chef) offers Bolivian folk music and local and international dishes in a colonial setting. If you have time, the Oberland (through the "Valley of the Moon") is a pleasant lunch spot. And when you need a coffee, opposite the central post office is the legendary Cafe La Paz where old-time conspirators planned their coups.

● Typical dishes and drinks: *Saltinas* - a spicy meat or chicken turnover traditionally eaten before lunch always with a cold drink, never coffee or tea. *Chairo* - the soup of La Paz, meat-based with at least 10 spices, made with dried potato flour (*chuno*). *Picante mixto* - as a main dish. In its complete version, it includes jerky, rabbit, tripe and tongue.

Chufay - a mixture of *singani* (a locally-distilled spirit made of grapes), lemon juice and Seven-Up. *Concepcion* - a breakthrough in Bolivian wine. Could be Chilean.

● Communications: Picking up a pre-capitalisation Bolivian telephone can be a nightmare; getting through, locally and internationally, is time-consuming. Picking up the Bolivian Times, the country's only English-language newspaper, is a more agreeable experience. The one-year-old weekly appears on Fridays. Cochabamba: Half and hour's flight from La Paz, this "city of eternal spring", at 2,600m above sea level, has lost some of its former architectural charm in the aftermath of the 1980s coca boom down the road to the Chapare. It remains a pleasant and relaxed, but well-developed, business centre.

Stay at the deceptively gracious, recently-refurbished Gran Hotel Cochabamba. Built adjacent to a small church, some rooms permit participation in services next door. Round the corner is the new Hotel Portales, not to be confused with the Patino mansion (now a cultural centre and art gallery) in the same block. Both hotels have swimming pools.

The Gran Hotel restaurant is considered the best in town.

Richard Bauer and Sally Bowen

Santa Cruz

Gateway to the Amazon

Santa Cruz de la Sierra, misleadingly called "of the highlands", is Bolivia's agro-industrial centre and gateway to the Amazon region.

This sprawling city of about 750,000 inhabitants boasts the highest per capita income of the nation and is rivaling La Paz as the number one city in Bolivia.

Tens of thousands of migrants arrive annually - principally from the highlands - in search of employment. Some join the growing service industry, others end up sorting through the growing trash mounds beyond the last of the eight highway rings that sub-divide the city.

Architecture - interesting sand formations outside the city are

Architectur- interesting sand formations

ally. Santa Cruz cannot

compete with the quaint colonial cities of Sucre or Potosí. Yet at the heart of the city lies the picturesque Plaza 24 de Septiembre with its elliptical-style cathedral (Basilica Menor de San Lorenzo) and a well-kept park with colourful native *Tajibos* trees. The arcaded streets surrounding the plaza maintain something of a colonial air.

Also in the city centre is El Arenal, a type of Central Park with an open-air market nearby and countless food stalls. In the centre of the park a mural by the artist Jorge Vaca depicts the encounter of the Warani Indians with the first Spaniards coming to the region. The park's anthropological museum provides an introduction to the Chiquitano Indian culture, but artifacts on display are poorly labelled.

Among the crowds that wind their way through a seemingly endless commercial district and the bustling traffic of the city centre are the characteristically plain-clad Mennonites, of Canadian and Paraguayan origin. Another group of immigrants, invited by the Bolivian government to settle the still virgin rainforest surrounding Santa Cruz decades ago, are the Japanese. They have found employment in numerous professions and established half a dozen or more good restaurants.

Visitors seeking a cool and shady refuge in the often swel-

tering mid-day heat of Santa Cruz should visit the municipal zoo. For those that cannot make it to any of the outlying national parks to see the fauna in its natural habitat, the zoo has a good display of some of the rare and endangered species from all over Latin America.

Santa Cruz's Carnival, celebrated before Lent, is famous throughout the region. Floats, parades and dancers in the streets reveal the gaiety for which the people of Santa Cruz are known. Pedestrians should beware the water-filled balloons which youngsters throw indiscriminately at passers-by.

The Dunas de Arenas just outside the city are interesting sand formations

Santa Cruz offers a host of excellent hotels and restaurants. Reservations are especially recommended in September when the annual Santa Cruz Trade Show is on. It attracts vendors from all of South America and specialises in agro-industrial products and services.

Business travellers are recommended to stay in the centrally located four-star Grand Hotel Santa Cruz, which features a swimming pool and spacious patio, or the Hotel El Arenal, which is somewhat less spacious but is a good value.

The city's biggest and most exclusive hotel is Los Tajibos which offers a pool and a restaurant recommended for its ceviche (marinated fish). The casino is presently closed. A second five-star apart-hotel, Yatai, has recently been inaugurated. Both lie in the wealthy residential neighbourhood of San Martin.

The Dunas de Arenas just outside the city are interesting sand formations and are becoming something of a tourist attraction. They are also a warning of the dangers of massive erosion due to deforestation and unsustainable agricultural activities.

The city's airport offers excellent service and daily non-stop connections to La Paz, São Paulo and Miami, but is not busy. The same applies to Santa Cruz train station.

Raymond Collitt

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July 1992 - July 1994

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مكتبة النور

INTERNATIONAL COMPANIES AND FINANCE

Westpac profits advance sharply

By Nikki Tait
in Sydney

Westpac yesterday began the Australian banks' reporting season by announcing an after-tax profit of \$704.7m (US\$533.8m) in the 12 months to end-September, up from \$632.2m the previous year and a \$1.56bn loss in 1991-92.

The profit figure translated into earnings per share of 35 cents, on a diluted basis, compared with 1 cent previously. The final unfranked dividend was set at 10 cents a share, compared with 6 cents, making a total for the year of 18 cents.

The bank attributed the substantial improvement to higher net interest income, cost reductions, improvements in the efficiency ratio and a significant reduction in both the bad debt charge and the size of its impaired loan portfolio.

Net interest income for the year stood at \$2.76bn, compared with \$2.63bn, while non-interest expenses fell to \$2.56bn from \$2.92bn.

The charge for bad and doubtful debts was almost halved to \$594.9m from \$1.29bn in 1992-93. Westpac also said that the ratio of net impaired assets to shareholders' equity stood at 30 per cent by end-September, compared with 65 per cent a year earlier.

The general provision for doubtful debts at year-end was \$973m (A\$700m) - including a \$26m provision for drought-related problems - while specific provisions stood at \$1.51bn (A\$1.98bn).

The group's tier one capital ratio at year-end was 8.9 per cent, compared with 7.4 per cent previously.

The bank said it had moved from "a recovery phase to one striving for improved performance and growth".

Its main focus in the current year would be on implementing a retail branch restructuring programme, further reduction in impaired assets, new product development and additional efficiencies. It said that it was budgeting for further profits growth - with some analysts suggesting it could make between \$1bn and \$1.1bn.



Bob Joss "feels good" about the start that has been made

Man from Wells Fargo hopes to set stage for growth

Mr Bob Joss, the former Wells Fargo executive imported from the US two years ago to sort out the troubled Australian bank, was asked yesterday whether he had succeeded in changing the company's culture.

"No, not by any stretch of the imagination," he replied, bluntly. Mr Joss added that while he "feels good" about the start that has been made, his experience and observations of other companies suggested that this would be a decade-long process.

Shareholders, who sat through Westpac's miserable performance in the early 1990s and are still seeing dividends at one-third of 1990 levels, may be getting worried. Fortunately, Westpac's financial performance showed a significant improvement yesterday, even if internal changes are taking longer to effect.

The bottom-line profit figure of \$704.7m was below the more ambitious market forecasts, causing the shares to dip 7 cents to A\$4.29. But analysts came away from yesterday's afternoon's briefing suggesting that this may have been harsh. The shortfall on expectations, they said, could be explained

by unforeseen items: the provision for drought-related loan problems, and a \$366.3m charge before tax related to the pre-payment of superannuation expenses, which compared with a \$296.1m surplus in the previous year. In future, the bank proposes to adopt UK accounting practice - at least, until an appropriate Australian standard is agreed - which should remove this volatility.

The analysts' main focus was on three issues: Westpac's problem loan experience, its net interest margin, and its progress in achieving cost/efficiency gains.

On the first, the picture looked a lot brighter than in previous years, with total impaired assets falling to A\$3.8bn by end-September from A\$6bn in 1992 and A\$6.6bn in 1993. That meant that the ratio of impaired assets to total loans and acceptances stood at about 5 per cent, half the level two years ago.

"The key is problem assets," said one analyst at ANZ McCaughan, "and Westpac is getting itself into shape." However, Mr Joss is the first to admit that more needs to be done. The ratio, he commented yesterday, "has got to get lower", and he indicated a 1 to 2 per cent target range as a

sign of "a really healthy bank". Although net proceeds from property disposals were about A\$1.6bn last year, Westpac says it still has about A\$1bn worth of property to be sold.

The net interest margin improved by 50 basis points to 3.5 per cent in the year. Westpac said that the reduced cost of funding impaired assets, as these fell, accounted for an improvement of 30 basis points.

The spread on productive overseas assets rose by a similar amount, as the bank cut back overseas operations, exited lower yielding corporate facilities, and focused on "core Australian customer relations".

The cost improvement was seen as slightly sluggish in the second half, with branch restructuring taking a little longer than expected to implement. Average staff numbers in the second half were 31,681, compared with more than 45,000 in 1990. Mr Joss says that staff numbers will fall again in the current year, but at a slower rate than in previous years.

The ratio of non-interest expenses to income has reached 59.5 per cent overall, compared with 65.5 per cent previously.

In spite of yesterday's profit news, the jury is still out on the management changes at Westpac. Mr Joss has brought in a host of new senior executives - in many cases, from outside Australia - and some think that the objectivity which flows from this strategy compares favourably with the less radical approach by rivals.

But not everyone is giving the high-profile chief executive, whose US-style remuneration package and management approach has caused much local comment, all the credit for recent financial improvements. "That's a little bit too favourable towards Joss. He's benefiting, but it's really external changes like the improvement in the property market and so on," was one less generous comment yesterday.

Nikki Tait

Aiwa ahead at Y4.6bn after six months

By Michio Nakamoto
in Tokyo

Aiwa, the maker of audio and visual equipment, yesterday announced a near-doubling of recurring profits - before extraordinary items and tax - in spite of Japan's sluggish market and the impact of a high yen.

Non-consolidated recurring profits in the six months to September rose to Y4.6bn (\$47.2m) from Y2.3bn a year ago as sales rose 35 per cent to Y110.2bn from Y81.7bn.

Net profit in the period surged 166 per cent to Y2.1bn from Y797m. Aiwa expects to pay a dividend of Y3, up from Y3 in the previous first half.

Among Japan's troubled audio-visual companies, Aiwa, a subsidiary of Sony, stands out as a success story.

For several years the company has raised its overseas manufacturing ratio to 81 per cent - a strategy which has helped it overcome the adverse impact of the high yen.

Aiwa's rapid response to the impact of a high yen has enabled it to raise profits in spite of a high overseas sales ratio of 78 per cent.

It has launched a series of innovative products, particularly small stereo units, at low prices which have been a success at home and abroad. As a result, its domestic sales rose 17 per cent in spite of the continuing sluggishness of the market, while overseas sales grew 41 per cent.

Sales of audio equipment rose 27 per cent on popular demand for its miniature component stereo sets. Video sales surged 71 per cent due to the strength of TVs which incorporate a video tape recorder and of video recorders which offer simple functions.

Aiwa is expanding its information equipment business, and strong sales of PC modems helped the division's sales rise by 75 per cent.

The company forecasts full-year sales of Y229bn against Y178.7bn last year and recurring profits to climb to Y9bn compared with Y6.7bn. Net profits are forecast at Y4bn, up from Y2.4bn.

Hard times for Japan's two biggest watchmakers

By William Dawkins
in Tokyo

Japan's watchmaking industry is still in the grip of hard times, according to the latest interim results from Seiko and Citizen Watch, the two leading producers.

Both companies suffered from the erosion of the yen value of their export income, because of the strength of the Japanese currency and the price sensitivity of their high-volume products. They provide an example of how exporters of low-margin products have found it hard to adjust to the yen's rise.

The two groups have tried to diversify by making small computers, but have met fierce competition in the sector.

The result was a loss for Seiko and a sharp decline in profits for Citizen at the parent company level for the six months to September.

Seiko yesterday passed its interim dividend after reporting a reduced interim loss of nearly Y1.02bn (US\$10.4m), on sales down 10.8 per cent at Y108.7bn.

The economic outlook is so uncertain that Seiko was

Interim results to September 1994 (Ybn)

	Sales	Recurring profit	Net profit
Citizen Watch			
1994	96.2	2,465	1,632
1993	124.2	6,290	4,243
Est for year	205.0	6,000	3,300
Seiko			
1994	108.7	-1,018	-1,010
1993	121.5	-3,208	-3,200
Est for year	219.0		

* below extraordinary items and tax

Source: company reports

unable to make a forecast for the full year.

It warned, however, that it was under pressure in the current half from the yen's volatility and a slow recovery in personal spending.

Seiko announced late last year that it would reduce costs substantially by ending production of personal computers for overseas markets, a factor in its reduced interim loss.

Citizen fared slightly better, with a 61 per cent decline in recurring profits - before extraordinary items and tax - to Y2.4bn, on sales down by 22.5 per cent to Y96.2bn.

It will pay a maintained interim dividend of Y4.5 per share, but forecasts that full

year current profits will fall by 43 per cent to Y6bn.

Sales of watches, which account for more than half of Citizens' turnover, fell by 11.2 per cent.

Like Seiko, the strength of the Japanese currency eroded the yen value of its export sales, which account for just over 70 per cent of total turnover.

However, Citizen's computer products did even worse than its core watchmaking business, with sales down 46 per cent.

The company also suffered from the cancellation of an order to make notebook computers for computer producers to sell under their own names.

Restructuring helps Omron to rise 42%

By Gerard Baker in Tokyo

Extensive restructuring enabled Omron, one of the largest makers of automation control components, to post sharply increased profits on slightly higher turnover in the six months to September 30.

Recurring profits - before tax and extraordinary items - rose by 42 per cent on the same period a year ago to Y3.1bn (\$31.85m), while sales grew by 1.4 per cent to Y176.2bn. After tax earnings increased by 38.2 per cent to Y1.9bn.

The company said domestic demand remained very weak, and that the increase in turnover was produced largely by higher exports. Competitive cost-cutting and strong growth in overseas markets had helped to overcome the effects of the strong yen.

Among the company's main divisions, only electronic fund transfer systems saw substantially higher growth in the period - up 13 per cent - as demand for bank automation systems remained strong.

The core control components and systems division achieved a small gain in turnover over higher exports.

Restructuring would continue in the remainder of the financial year ending next March, the company said, and would include development of new businesses and products and the establishment of a regional headquarters in China in an attempt to expand business there.

Omron forecast annual recurring profits of Y3.5bn, up by 13 per cent on last year, with turnover higher by 2 per cent at Y378bn.

Qantas regains right to fly direct to China

Qantas, the Australian flagship carrier in which British Airways has a 25 per cent stake, has won back the rights to fly direct to China from Australia. At present, the only carrier offering this service is Air China, with other carriers flying via Hong Kong, writes Nikki Tait.

Qantas held the rights previously, and operated a service during the 1980s. However, this was abandoned in 1987, on the grounds that it was unprofitable. The rights were then won by Australia Air, a new carrier which tried to raise the necessary capital to begin operations last year but was eventually unsuccessful.

The International Air Services Commission, which allocates routes, said it expected Qantas to operate one Boeing 767-300 service a week.

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COMPANY NEWS: UK AND IRELAND

Birmingham Midshires buys £550m mortgages

By Alison Smith

Birmingham Midshires, the UK's 13th largest building society, has acquired the £550m UK residential mortgage business of the UK subsidiary of Credit Agricole, the French mutually-owned bank.

The purchase is more than three times larger than any of Birmingham Midshires' mortgage book acquisitions to date and is a further example of the departure from the UK market of the centralised lending subsidiaries of overseas groups. It represents more than 10 per cent of the society's assets, taking them to just over £5bn.

The society would not disclose the price, which is thought to be less than £20m.

The Credit Agricole business is administered from Richmond, Surrey. Staff based there will continue with the day-to-day management of its 11,000 customers for the time

being. Birmingham Midshires said, however, that in the longer term management of the business would be integrated with that of the other mortgage books it has acquired and managed from its Wolverhampton office.

Credit Agricole Personal Finance said yesterday that the decision to sell had been strategic. The company considered a customer relationship limited to mortgages alone to be insufficient in the UK.

Credit Agricole is the largest bank in France with total assets of FF1.67tn (£199m).

In a similar move, Banque Nationale de Paris is leaving the UK market further progress of the sale of its outstanding mortgages of £1.5bn to Halifax Building Society, the UK's largest mortgage lender, is expected to be announced later this month.

In a generally flat UK mortgage market, where margins

are low, acquisition of mortgage books and businesses is a popular way for mainstream lenders to gain market share. Last week Abbey National, the mortgage lender and banking group, announced that it was buying Household Mortgage Corporation, the UK's largest centralised lender with about £1.6bn in outstanding mortgages, in an agreed cash offer of £56.3m.

Centralised lenders sell through intermediaries rather than through branches, so for the purchaser there is the prospect of growth without the task of reconciling two branch networks.

Many centralised lenders entered the UK housing market in the boom years of the 1980s and have found conditions much more difficult since. Where they are owned by foreign banks, the UK is often seen as no longer a core area of business.

C&W moves Mercury chief

By Paul Taylor

Cable & Wireless, the telecommunications group which reports its interim results today, announced a surprise senior management reshuffle including the appointment of a new chief executive for its Mercury Communications subsidiary - last night.

Mr Mike Harris, currently chief executive of Mercury and executive director Europe, is moving to become chief executive of Cable & Wireless Federal Development, which is responsible for developing the group's worldwide services, features, applications and technologies.

Mr Harris, who joined Mercury in October 1991 having previously been chief executive of Midland Bank's Firstdirect unit, is being replaced by Mr Duncan Lewis, director of Business Networks and Cable & Wireless' US operations.

The management changes come at a time when Mercury faces growing competition and the need to improve productivity and cut costs.

Commenting on the changes, Lord Young, executive chairman of Cable & Wireless, said they reflected "the development of Mercury as it faces intensified competition and regulatory change".

Among other appointments Mr Edward Astle is to become chief executive of Cable & Wireless Federal Communications while retaining his present responsibilities.

See Lex

Institutional investors demand greater international expertise

MAM sets sights on Germany

By Norma Cohen, Investments Correspondent

Mercury Asset Management, the UK's largest independent fund management company, is setting up an investment company in Germany to capitalise on the growing demand for international investment expertise.

MAM is 75 per cent owned by SG Warburg, the investment bank. Mr Harald Schussler, joint managing director of SG Warburg Asset Management Frankfurt, said: "The target client is the German institutional market - pension funds, insurance companies, corporates."

Recent European Union legislation on insurance funds which forced Germany to lift

restrictions on investment outside the country had prompted increased interest in international bonds and equities.

"Our intention is to market our experience in the global equities market," Mr Schussler added.

The German institutional funds market has grown between 40 and 50 per cent in each of the last three years as corporations discovered that professional fund managers earned better returns than in-house investment managers, he said.

MAM has obtained a licence to establish a Kapitalanlagegesellschaft, which will allow it to set up so-called "specialised" carrying special tax advantages.

Mr Schussler said it had several potential clients already.

MAM is also setting up a continental sales office in Frankfurt which will target the \$900m (£550m) Luxembourg-based umbrella fund, Mercury Selected Trust, at the German retail market.

Meanwhile, Mercury Asset Management reported a 13 per cent rise in pre-tax profits for the six months to September 30 from £50.4m to £57m. The interim dividend rises to 4.5p (4p).

Assets under management rose from £55.5bn a year ago to £62.7bn. Some £1.3bn represented net new cash in both institutional and retail accounts, said Mr Hugh Stevenson, chairman.

However, with the rise in profits and revenues came a significant increase in operating expenses.

Operating costs rose from £56.3m to £62.2m but were only slightly ahead of spending in the second half of the last financial year.

Mr Stevenson said almost all the increased expenses related to the hiring of additional back office support for MAM's global custody operations and its growing retail funds business.

"Spending has been frozen for the past three years and we had a lot of catching up to do," he said.

However, he added that the growth in expenditure was not likely to occur into the second half of this year.

Ashbourne to join market with £80.5m valuation

Ashbourne Holdings yesterday announced its shares would be offered to potential investors at 150p, valuing the nursing homes operator at £80.5m.

Ashbourne, which was the subject of a management buy-out last year from Stakis, the hotels and casinos group, is raising £48m after expenses through a placing and public offer to pay off debt.

Some 15 per cent of the 33.3m shares being issued will be

offered to the public and the rest placed with institutions. Existing shareholders will retain 38 per cent of the company.

The company is coming to the market on a p/p of 12.9 times, based on historic earnings of 11.6p. Ashbourne said that if it had been listed for the year to October 2, the board would have recommended a dividend of 3p. This represents a notional yield of 2.5 per cent.

Ashbourne caters for the upper end of the private care market and is one of the largest nursing home groups in the UK with 19 homes and 1,599 registered beds.

Mr Tom Hamilton, chief executive, plans to open four new homes and build two extensions to existing homes by the end of 1995. Ashbourne has the land and planning consent to build homes with a further 515 beds.

Placing and intermediaries offer values SeaPerfect at £59m

Investors with a yen for molluscs are being offered a stake in SeaPerfect, the world's largest controlled producer of shellfish, for 120p a share. The price values the seafood farmer at £59m.

SeaPerfect, which was founded by a US computer entrepreneur in the 1980s, is coming to the market through a placing and intermediaries offer of 20.8m shares. The issue will raise £25m, of which £18.4m will go to the company and £6.6m to existing shareholders.

Of the offer, 15.8m shares, or 75 per cent, have been placed with the balance placed conditionally and made available to intermediaries.

SeaPerfect farms shellfish in Chile, Florida and South Carolina, producing seed in its hatcheries and setting the young clams and scallops in protected coastal areas.

Mr Bill Lord-Butcher, chief executive, argues that with declining stocks of shellfish in the wild due to overfishing and pollution, controlled farming is the only way to meet

rising demand.

The company is forecasting a loss this year of not more than £1m, after 1993's deficit of £2.7m. However, Mr Lord-Butcher has said the company is making a profit in the final part of this year.

Sir David Orr, former Unilever chairman, is chairman and Mr André Benard, the former co-chairman of Eurotunnel, is a non-executive director.

The issue has been fully underwritten by Williams de Broë, the stockbroker.

£10m law suit fears hit Lloyd Thompson

By Ralph Atkins, Insurance Correspondent

Shares in Lloyd Thompson, the insurance and reinsurance broker, fell 16p to 178p yesterday after the company warned that its principal subsidiary was expected to be named as defendant in a £10m law suit.

Commercial Union, the composite insurer, is understood to be planning legal proceedings following a dispute over a marine insurance policy arranged by Lloyd Thompson, CU, which today announces its results for the first nine months of this year, would not comment last night.

Lloyd Thompson said it would "vigorously resist" any claim. The group said in a statement that the proceedings had arisen "in the ordinary course of business" of its main broking business. The statement added: "Such proceedings could, if instituted, give rise to a claim of approximately £10m."

Lloyd Thompson has had to weather difficult trading conditions over the past year which have curbed profits growth. In September it announced pre-tax profits up 5 per cent to £18.2m for the 12 months to June 30.

After its first full year at the helm, the new management team at WEW Group, which currently runs 71 What Every-one Wants discount stores, was yesterday able to announce a return to the black.

Pre-tax profits for the 12 months to July 30 emerged at £2.25m, against losses last time of £2.09m, on total turnover of £112m (£106m), of which £2.04m was from discontinued activities.

The turnaround was helped by a reduction in net interest charges to £255,000 (£744,000) after the injection of £18m of new capital in January. Mr Keith Paskins, finance director, said the group was £2m cash in the balance sheet, against £8m debt.

However, the group has had to take as an exceptional charge £397,000, representing compensation to Mr Ian Grabner, who resigned as managing

WEW returns to black with £3.3m

By Peter Pearce

director in August.

In addition, there have been further provisions of £1.54m (£2.11m) in respect of properties and operational guarantees from the discontinued Dennis Day, the clothing manufacturer and importer now sold. This was reduced by a prior year provision of £870,000. The sale brought in profits of £717,000.

Furthermore, within the cost of sales lay a £1.1m provision against problems with "aged and surplus stock" in the core business.

At the operating level, profits from continuing operations were £5.12m (£6.02m restated).

Mr Peter Carr, chairman, who describes himself and Mr Paskins as "a couple of old schoolkeepers who've been around a long time", said the current management team was cautious.

"The success of this business depends on its buying," said Mr Paskins yesterday. Mr Carr

added that some buyers had been in place since 1990, when turnover was only £31.2m. Current year sales are targeted at £160m, rising to £230m by 1998. New buying controllers have been recruited for the four trading divisions.

By the end of the year the number of stores rose to 63, with 11 opened during the period. The plan is for 125 stores within five years. Mr Carr said capital expenditure -

also covering store refits - was £45m (£37m) and will rise to £65m in the current year. Earnings were 1.35p (losses 2.7p) per share. The final dividend is lifted to 0.35p (0.25p), though the total falls to 0.7p (1.35p). The shares closed down 2p at 31p.

Smith New Court, the house broker, remains cautious, downgrading current year forecasts to pre-tax profits of £7.5m and earnings of 3.3p.

NEWS IN BRIEF

CATTLE'S (HOLDINGS): Rights issue acceptances in respect of 23.2m shares or 94.1 per cent.

CONTINENTAL FOODS has acquired Sykes (Soft Drinks), which operates door-to-door rounds in the Sunderland area, for £447,525 cash. The net asset value of Sykes at completion is expected to be £397,525, which includes some £215,000 cash. **GARTMORE EUROPEAN**

Investment Trust: Net asset value 147.1p (136.3p) per share at September 30 year end. Earnings per share 0.96p (1.56p). Single dividend held at 0.9p.

GROSVENOR INNS has purchased a 25 year leasehold interest in a site in London's Kings Road for £550,000 cash. The site currently trades as The Argyle, a restaurant and bar.

Currency influences restrict growth at Elan Corporation

By John McManus in Dublin

Elan Corporation, the Irish-based drugs company 75 per cent owned by US investors, reported pre-tax profits of £19.8m (£19.5m) for the six months to September 30.

The interim results last time showed a loss of £59m but included a write-off of £50m for goodwill when Elan acquired Drug Research Corporation.

Excluding the write-off, profit before tax amounted to £18m.

Turnover rose from £55m to £59m. Manufacturing and distribution income was flat at £29m as an 8 per cent increase in sales was offset by the strengthening of the punt against the dollar.

The main market for Elan's products is the US, which accounts for more than 50 per cent of sales.

The group's main product is the range of hypertension and angina drugs known as the Cardene family, which are projected to have sales of approximately \$900m (£550m) in the US and Canada this year, according to Mr Tom Lynch, the chief financial officer.

The drugs are made under

licence by Marion Merrell Dow and Elan takes 5 per cent of sales.

Royalty income fell from £10m to £8m, also the result of currency influences.

Contract development income increased from £7m to £11m, representing an increased contribution from Advanced Therapeutic Systems, a research affiliate.

Earnings per share were 55p compared with losses of 20p. Earnings before the exceptional charge amounted to 45p.

The group is maintaining its policy of not paying dividends at the interim stage.

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Correction

Turnover at Automagic in the year to June 25 fell from £11.8m to £11.2m. The figures were wrongly reported in yesterday's FT.

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COMPANY NEWS: UK

Anglian Water rises 20% but sector falls

By Peggy Hollinger

Anglian Water yesterday announced a 20 per cent rise in pre-tax profits to £120.5m for the half year to September 30 and declared a 9.5 per cent increase in its interim dividend from 7.3p to 8p.

In spite of the announcement, water shares closed 2 per cent lower yesterday. This contrasts with the reaction last week when Thames Water's surprise 11 per cent dividend increase left the sector 2 per cent higher.

The market interpreted Thames's action as a signal to increase dividend expectations for the sector. "It is not surprising that the sector is weak," said Mr Bill Dale of SG Warburg. "Expectations ran wild after Thames's results."

Anglian said it had increased the dividend in line with its underlying earnings improvement. The profits advance was helped by a £10.3m reduction in the provision for water and sewerage pipeline maintenance to £9.2m.

Turnover was 5 per cent higher at £358.8m, against £341.4m when pre-tax profits were £100.5m. Earnings per share rose from 32.2p to 38.7p.

Mr Alan Smith, managing director, said Anglian was confident it would be able to maintain real earnings growth under the new five-year pricing regime set by the industry regulator in July.

Customers would also benefit, he said, with an extra 58m to be devoted to issues such as low water pressure, sewer flooding and cleaning up estuaries. This funding was in addition to the £154m invested in the first half and £170m already budgeted for the latter part of the year.

Anglian Water
Share price (pence)
600
500
400
300
200
1990 '91 '92 '93 '94
Source: FT Graphite

£3.3m

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Company - pending dividend	Total for year	Total for last year
AG	3.25	Jan 6	2	5.5	2
Anglian Water	8	Feb 20	7.5	-	22.8
British Airways	3.5	Jan 31	3.18	-	11.1
Gartmore Euro	0.9	Jan 31	0.9	0.9	0.9
GR (Holdings)	0.7	Dec 22	1.4	23.6	1.8
Greenway	1	Jan 3	nil	-	1.5
Hilltopps Water	24	Jan 1	23	60	60
Ingham	1.75	Jan 13	1.75	-	5
Marks & Spencer	2.8	Jan 20	2.5	-	9.2
Scottish Natl	2.6	Jan 7	2.6	7.5	7.75
UPF	1	Jan 18	1	-	22
Warburg (SQ)	6	Dec 19	6	-	0.7
WEM	0.35	Dec 16	0.25	0.7	1.35
Wyndham Press	1.4	Dec 16	0.75	-	2.25

Dividends shown pence per share net except where otherwise stated. †On increased capital. ‡Includes special. †Corrected.



Alan Smith: confident of maintaining earnings growth

Anglian, which announced plans for 900 job losses earlier this year, said operating costs had been held at £174m (£173m) through tight spending controls and other efficiencies in the regulated business. The regulated business improved operating profits by 18 per cent to £139.5m (£118.7m) on sales 5.4 per cent higher at £315.5m (£299.3m).

Losses in Anglian's two main non-regulated businesses rose from £400,000 to £1.6m. Mr Smith said this was due to marketing and research and development costs. The process engineering business was expected to return to profit in the second half.

COMMENT

After the brief excitement sparked by Thames, the water sector has returned to earth with Anglian's results. The company's emphasis on a dividend increase backed by similar underlying growth could be seen as a warning not to expect too much under the new pricing regime when earnings are expected to be flat. However, the company may not be as constrained as once thought. The substantial cut in the infrastructure renewals charge has enhanced its cover and its prospects for dividend growth. Anglian is also making noticeable progress on efficiency savings. Nevertheless, the non-core business remains disappointing. Forecasts are for about £225m this year, with a prospective p/e of 8. There is still little which sets Anglian apart, in a sector depressed by limited exposure to economic upturn and substantial political risk.

The sombre and sensitive subject of pricing

Christopher Price looks at the uncertain process by which the market value of new issues is determined

Institutional investors remain in a sombre mood over new issues.

In what has been a record year for flotations, a rapid succession of profit warnings, poor results and share price underperformance has rattled investors.

It has also served to focus attention on the sensitive subject of pricing.

"The feeling remains among many fund managers that some of the new issues which came to the market during the first quarter of the year, in particular, were overpriced," says Mr Geoff Douglas, smaller companies analyst at BZW.

This attitude has been reflected in several recent issues where companies have been forced to scale back their valuation expectations.

Cellular components group Filtronik Comtek, for example, which was expecting a market valuation of about £60m, had to settle for £44m.

TLG, the holding company for Thorn Lighting Group, was valued at £205m against hopes of about £225m.

But significantly, both companies have been successful at the issue prices dictated by the market.

Filtronik leapt to a 15 per cent premium within days of its flotation, while TLG's offer has been subscribed 3.2 times.

Its shares begin trading tomorrow. Fashion retailer New Look, however, refused to countenance the price institutions were putting on its shares last week, and became the latest in a growing list of companies to postpone its float.

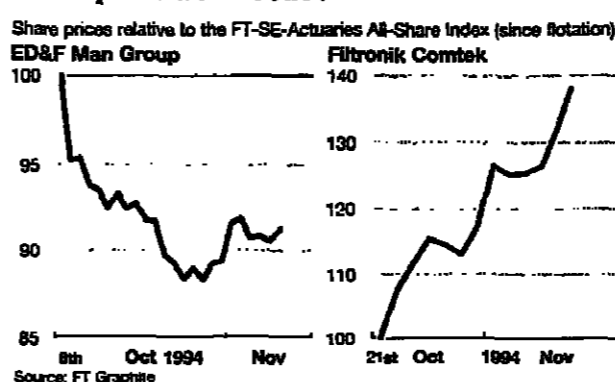
While criticisms have been levelled at the quality of the companies coming to the market and at investors' eagerness to exit at the earliest opportunity and the highest price, it is the financial advisers which have borne the brunt of the disquiet over pricing.

However, they counter that pricing is largely a function of investor demand, which was high during the last quarter of 1993 and the beginning of this year, helping to push up prices. They also argue that, as they are often involved in placing only part of a company's equity, it is not in their interests to float a company at a price that is not sustainable, because there may well be more to come.

Traditionally, new issues have been priced at a discount to either their nearest listed competitors, or to the sector, or to the market, the purpose being to give investors an incentive to subscribe for the shares.

Keen pricing should also stimulate demand in the after

What price new issues?



market when the shares begin trading.

The two-week period prior to the shares being priced is a crucial one when the company, adviser and broker meet with investors and gauge feedback to the issue.

"Although it is not a completely passive process, pricing is largely a reflection of institutional appetite," says Mr Paul Hamilton, a director of corporate finance at SG Warburg, the investment bank.

Another adviser commented: "If the institutions won't wear it then it won't get away. It's as simple as that. They call the tune."

Mr Tim Linacre, corporate finance director at Panmure Gordon, says that the impor-

bottom of the range we had set ourselves."

But the company was supported by firm American interest - the placing was being undertaken simultaneously in the US - and a strong management story. As a result, the flotation price put the shares on a prospective p/e of about 20 times, still well ahead of the market average of 13.5 times for 1995.

Other companies which have jumped or dived on or shortly after the day of issue have similar individual tales explaining their performances, making generalisations over pricing difficult.

Finelist, a motor components group, jumped to a 16 per cent premium on its first day's trading, which might indicate a slight underpricing. Like Filtronik, Finelist was a difficult company to compare with others and the shares came on a slight premium to the market on a prospective basis, although at a discount to its sector. BZW was the broker to the issue and Mr Douglas says that the strong early performance of the shares enabled the company to come back to the market in July to finance an acquisition.

Coda, the accountancy software group, came to the market in February on a prospective p/e of about 19, according

to analysts, again a hefty premium to the market. Unfortunately, this was also at the market's peak, and the shares trailed downwards, although outperforming the FT-SE-100 All-Share. However, the group dived into the red in July and the shares lost 35 per cent of their value.

ED&F Man, the commodity broker, also suffered from the sour sentiment towards new issues, having its issue price reduced by 15 per cent from the expected figure when it floated in September. The offer price gave it a notional yield of 6 per cent; the prospective p/e was about 9 times, a good discount to the food manufacturing sector's 12. But the shares went to a 10 per cent discount within two weeks of their issue, which the company's advisers attribute to the falling market. They have since recovered but are still trading below their issue price.

Mr Douglas says that investor nervousness has prompted an increase in yields among new issues. "In a growth market, the yield plays little part in investor interest. But now they've started to creep back up again." One institutional investor added: "Falling prices and improving yields is the only way the new issues will come back into favour with the big institutions."

HALF YEAR RESULTS TO 1ST OCTOBER 1994

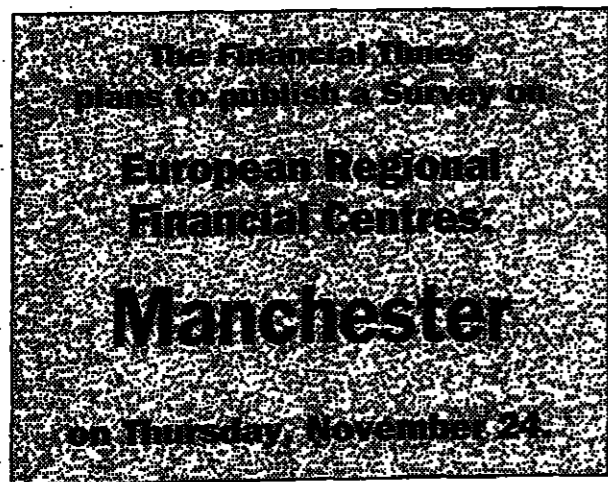
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Highlights from the statement by the Chairman.
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COMPANY NEWS: UK

Forte pays FFr1.82bn for Meridien hotels

By Michael Skapinker, Leisure Industries Correspondent

Forte has paid a total of FFr1.82bn (£217m) for the Meridien hotel chain.

The final purchase price for Meridien is less than the FFr1.9bn envisaged when the deal was first announced in September. This is because some minority shareholders agreed to accept lower amounts in return for earlier payment.

Mr Rocco Forte, Forte's chairman, has been appointed chairman of Meridien.

Meridien will have an eight-member board, of whom six will come from Forte.

Mr Jean Didier Blanchet, Meridien chairman until the purchase, is to be vice chairman.

Air France, which owned 57 per cent of Meridien until the Forte acquisition, is to retain a place on the board in the form of Mr Patrick Durant, an Air France director.

Forte has signed a seven-year co-operation agreement with Air France, under which it will jointly market Meridien hotels, and possibly other Forte properties. Forte said Air France flights to Germany and the US might be useful in marketing its hotels in the two countries.

The cost of purchasing Air France's stake is FFr1.09bn, of which FFr371m was paid yesterday. The balance is payable on March 8 1995, but is dependent on both detailed structural surveys and on how many hotel management contracts Meridien retains.

Of the minority shareholders, those with 11.35 per cent of the shares agreed to sell to Forte on the same terms as Air France. This meant Forte was required to pay FFr173m yesterday.

A further FFr43m is payable on March 8, again subject to the same conditions as Air France.

Minority shareholders representing 91.33 per cent of the shares agreed to accept final payment yesterday at a 15 per cent discount to the payment received by the other shareholders. The cost was FFr508m. Forte said yesterday's payments were mainly met from the proceeds of last week's £175m placing of Forte shares.

The balance was paid from existing borrowing facilities.

Gt Portland £18.9m acquisition

By Simon London

Great Portland Estates has acquired a portfolio of seven freehold properties from a private company for £18.9m, satisfied by the issue of 5m shares and £9.6m in cash.

The portfolio comprises two office buildings, one retail, and four distribution warehouses located in Cardiff and Plymouth. The properties generate an annual rental income of £1.5m, suggesting that Great Portland is buying on a yield of about 8 per cent.

The company said that it expected rental income to increase by 10 per cent over the next year as a result of rent reviews, which would push the yield on the properties to 8.75 per cent.

Mr Patrick Hall, deputy managing director, said that all the properties had been built or refurbished within the last 10 years and were let to blue-chip tenants. The deal will leave the vendors holding 1.5 per cent of Great Portland's enlarged share capital.

In June, Great Portland bought a portfolio of buildings from a private company for £28m and the Royal Oak Industrial Estate for £30m.

Clothing, food and financial activities ahead, but furnishing suffers M&S advances 15% to £354m

By David Blackwell

Marks and Spencer, the UK's most profitable retailer, lifted interim profits by 15 per cent on the back of a 7 per cent increase in sales.

Pre-tax profits for the 26 weeks to October 1 grew from £308m to £354m, while sales increased from £2.87bn to £3.07bn.

Sir Richard Greenbury, chairman, yesterday described the trading climate as "competitive" and consumers throughout the group's markets as "cautious and value-conscious".

But the group was well placed to contain raw material price increases as its suppliers benefited from large production volumes. It would also continue to build on its "traditional strengths of quality and value".

The shares yesterday closed at 404p, down 5/8p.

The UK, where the group now has 11.1m sq ft of selling space, continues to account for most of the turnover and profit. UK sales improved to £2.52bn (£2.37bn) and operating profits to £242m (£237m).

The group continued to win market share in clothing, where sales improved by 8.9



Sir Richard Greenbury: Canada no longer a big problem

per cent to £1.3bn. Food sales were ahead by 3.9 per cent to £1.1bn.

The group said that food sales had suffered from the fact that Easter, a traditionally strong period, had fallen in the previous financial year. It was confident the supermarkets were not eroding its market share.

Home furnishing sales were down by almost 1 per cent. Sir Richard said the market had

suffered a bad few months, with consumers cautious on big ticket items following tax increases.

The group's financial activities lifted profits from £15.5m to £18.5m following an increase in personal lending and a better performance on bad debts.

The plan to accept debit cards, although not credit cards, will require a massive reprogramming of tills and

information systems, which will begin after Christmas. Customers should be able to pay by debit card by next spring.

The group is planning to open most of its stores on the four Sundays approaching Christmas now that Sunday trading is legal. But Sir Richard said it would continue to be "very selective" in the stores it opened on Sundays for the rest of the year.

At present about 30 are open regularly, although this could rise to 50.

Outside the UK and Europe, sales were up from £276m to £291m, yielding operating profits of £10m (£8.7m).

Operating profits at Brooks Brothers, the North American clothing subsidiary, fell from £2.5m to £2.0m. The group is looking for a US chief executive to replace Mr William Roberts, who leaves next month.

The loss in Canada increased from £1.3m to £1.9m. Sir Richard said the losses could mainly be blamed on rental costs - but said that Canada, with annual sales of £80m, was no longer a big problem.

Earnings per share improved to 8.6p from 7.5p. The interim dividend is increased from 2.5p to 2.8p.

Hoare Govett launches index tracking investment trust

By Bethan Hutton

Hoare Govett is launching an investment trust to track its recently developed HG 1000 index, which covers the smallest 2 per cent of UK listed companies.

An institutional placing of shares in the new trust, which is to be called Hoare Govett 1000, is expected to raise up to £30m. Trading in the shares starts on November 15.

The trust will aim to match broadly both changes in the capital value of the index and its gross dividend yield by investing in 300 or more of the 1,000 companies which constitute the index. The largest are capitalised at just over £50m, and the smallest at under £1m.

The size of the fund is limited by the lack of liquidity in the target market. "The typical smaller company trades about once a week, and clearly con-

siderable patience is required if a stake is to be built in smaller components of the HG 1000," said Professors Elroy Dimson and Paul Marsh, of the London Business School, in a report on the new index.

The fund will be managed by Broadgate Investment Management, which already manages a trust tracking Hoare Govett's main smaller companies index. Both have an annual management charge of 1 per cent.

Acquisitions behind rise at Wyndeham Press

Contributions from three acquisitions made earlier this year helped Wyndeham Press, the printing and packaging company, double pre-tax profits from £750,000 to £1.51m for the six months to September 30.

The purchases - of Westway Offset, B&P, and Unity Paper Tubes - follow the acquisition in July last year of the Galt group.

Turnover of the enlarged company for the half year was

up by 35 per cent from £5.27m to £7.11m, of which £4.03m came from acquisitions. The pre-tax outcome was struck after a net interest charge of £141,000 (£28,000).

Despite the issue of some 6m shares during the period, earnings emerged at 4.5p (3.3p). The interim dividend is raised to 1.4p (0.75p).

Since the period end Wyndeham has acquired BR Hubbard Printers, a label and magazine printer.

Stakis makes £7.6m hotel buy in Bournemouth

Stakis, the hotels and leisure group, is paying £7.6m cash for the Palace Court Hotel in Bournemouth, Dorset. The purchase of the 110 bedroom hotel brings the group's chain to 38. It also runs 22 casinos.

Mr David Michels, chief executive, said: "This is one of the best hotels in one of the best resorts in the country." Much of its business comes from the conference and corporate market.

AG down 5% as UK sales fall

AG Holdings, the Doncaster-based cable reel maker, reported pre-tax profits down 5 per cent at £2.76m for the year to July 31, against £2.91m.

The company blamed a second half reduction in demand from the UK cable companies, its largest customers. The acquisition of a 67 per cent stake in EMS, the French cable drum maker, was completed in June, too late to have an impact.

Turnover was £17.9m (£15.9m), including £1.37m from acquisitions. Earnings per share were 10.8p (11.4p). A final dividend of 3.25p is proposed for a total of 5.5p (2p). Mr Richard Battersby, chair-

man, said turnover for the first two months of the current year was up 9 per cent but margins had come under pressure.

Hartlepool's Water

Hartlepool's Water Company reported pre-tax profits ahead from £720,000 to £900,000 in the six months to the end of September. Turnover was £2.7m, against £2.78m.

Earnings per share came out at 83p (71p) and the interim dividend is raised to 24p (23p). The company is proceeding towards conversion to public limited company status.

Greenway down

Greenway Holdings, the waste oil recycling business, saw a fall in pre-tax profit for the six months to September 30 from £1.91m, which included a £1.5m exceptional disposal profit, to £915,000. Operating profit was ahead

at £912,000 (£427,000) from increased turnover of £5.17m (£4.59m). The company said the improvement reflected the acquisition last year of BCS into Orol Fuels.

Earnings per share were 3.32, against 10.63p or 1.8p adjusting for the exceptional profit on the disposal of the US oil and gas operations. There is an interim dividend of 1p (nil).

GR (Holdings)

GR (Holdings), which operates the Grayshot Hall health retreat alongside investment, property and sheepskin merchandising activities, incurred a deficit of £578,756 before tax during the year to June 30. The group was acquired in June by A Stanford, a company controlled by Anthony and John Stalbow, both GR directors.

The outcome, which compared with losses of £438,168 last time, came on turnover of £3.55m (£4.33m). After a lower

tax charge, losses per share were 3.5p (9.4p). A proposed final dividend of 0.7p brings the total for the year, including a 23.5p special distribution, to 23.6p (1.5p).

Investment Co

The Investment Company, which invests in preference shares and convertible stocks, reported net revenue up from £493,512 to £527,850 in the half year to September 30.

Total income amounted to £672,292 (£626,139). Earnings came out at 1.51p (1.31p) and the interim dividend is increased to 0.75p (0.5p). Net asset value per share at the period end was 47.64p (49.63p).

The ultimate holding company is New Centurion Trust.

Vodafone in France

Vodafone, the mobile communications company, has acquired full control of Robert

Bosch Telecom Service France, making it the main French marketing company for the GSM mobile phone systems of France Telecom.

Général des Eaux, the French utilities and communications group, announced an extended alliance with Vodafone last month.

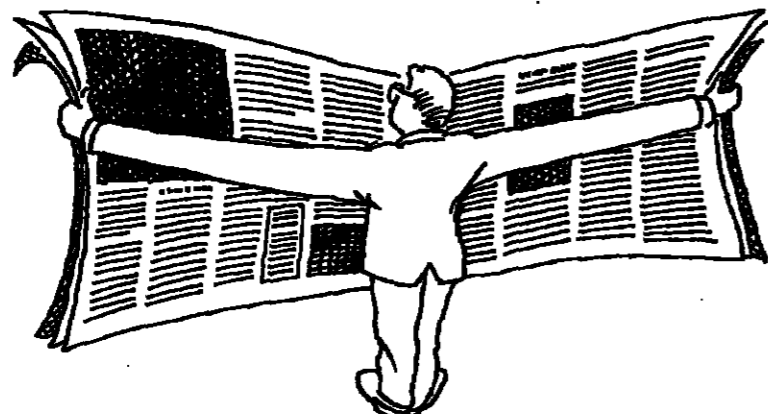
London Merchant

London Merchant Securities, the property investor, and General Accident have ended their joint property activities.

However, other investment opportunities are being explored with further collaboration in mind.

The move involves the sale of their interests in a property in Old Park Lane, London, for more than £14m, the transfer to General Accident of LMS's interests in three further properties and the transfer to LMS of GA's holdings in City Commercial Real Estate Holdings.

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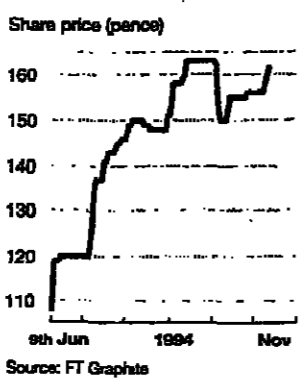
UPF trebles to £4.11m

By Richard Wolfe

Pre-tax profits almost trebled at UPF Group in the vehicle chassis producer's first annual results since it floated in June.

The share price rose 5p to 161p yesterday as the group announced pre-tax profits of £4.11m (£1.46m) for 12 months to August 31. It said the figures were marginally ahead of directors' forecasts.

UPF Group



UPF floated at 108p. Its expected value was cut by a third owing to the weak new issues market.

Operating profit rose 29 per cent to £5.45m (£4.21m) on turnover of £42.8m (£35.3m), reflecting growth of the core 4x4 chassis frame business.

UPF primarily supplies chassis for the Land Rover Discovery and Vauxhall/Opel Frontera. The 4x4 market accounts for 70 per cent of turnover, although the group also manufactures pressings for the car and domestic appliances industries.

Mr Keith Evans, chairman, said: "The prospects for organic growth in our core business remain good, particularly given the continued forecast growth of the 4x4 off-road vehicle market."

Further sales increases are expected after BMW's acquisition of Rover, as Land-Rover takes advantage of BMW's distribution network in Germany and North America.

Profits were underpinned by a 51 per cent reduction in interest costs to £1.34m (£2.75m), following debt repayments helped by the flotation. Mr Evans said those costs would be reduced by a further £1m this year.

Gearing stood at 33 per cent at the end of the year.

UPF was bought from the receivers to the collapsed Parkfield group in 1990, in a £30m management buy-out. It was forced to refinance in 1992 because of bad debts and problems with a new production line.

Earnings per share increased to 12.6p (4.86p) - or 12.19p (5.96p) on a pro forma basis - and the board proposes a final dividend of 1p.

Dividend rises expected to shock politicians

Michael Smith considers the interim results from the electricity companies which begin on Thursday

It says something about a sector when a company is expected to kick off the interim results season with an 11 per cent dividend rise which is likely to be seen as uninspiring by comparison with its peers.

The sector is electricity, which has delivered an almost uninterrupted stream of good news to shareholders since privatisation began four years ago.

The company is Scottish Power, which reports on Thursday. It may exceed the market's 11 per cent expectations but it would have to perform miracles to match the England and Wales electricity companies.

Some of the 12 regional companies are considered capable of delivering dividend rises of more than 25 per cent, extraordinary even by their extraordinary standards.

National Power and PowerGen, the generators, should not be too far behind, with analysts expecting about 20 per cent in each case, even though both have lost market share in recent years.

Profit increases for all companies will be meaningless because so much of power companies' sales are in the second half of the year. But the dividend rises will show that this is a sector in very good health.

ELECTRICITY COMPANIES: DIVIDEND FORECASTS

Interim Results date	Company	Forecast range (p)	Previous	Percentage increase
Nov 10	Scottish Power	4.58	4.13	10.9
Nov 15	PowerGen	4.7	3.95	19.0
Nov 17	National Power	4.6	3.75	22.7
Dec 1	Seaboard	3.85	3.3	16.7
Dec 5	N Ireland	3.5	3.39	15.0
Dec 6	Midlands	8.8	7.65	15.0
Dec 7	Swalec	11.10	7.5	48.7
Dec 8	Hydro-Electric	4.4	3.96	11.1
Dec 9	Norweb	7.7	6.7	14.9
Dec 12	Northern	8.6	7.4	16.2
Dec 12	Eastern	7.9	6.6	19.7
Dec 13	Southern	7.5	6.7	15.4
Dec 14	London	8.4	7.4	13.5
Dec 14	Manweb	8.1	7.0	15.7
Dec 15	South Western	8.1	7.0	15.7
Dec 16	Yorkshire	7.9	6.9	14.5
Dec 19	East Midlands	7.8	6.8	14.7

* Dividend "rebalancing" * Forecasts do not include scope for greater dividend enhancement following recent share buy-backs

Source: ICI Watbury and company annual reports

tion business, triggering a referral to the Monopolies and Mergers Commission.

With such an important issue at stake Hydro may be relatively subdued when announcing its results next month. Even so, it is expected to produce an interim dividend rise of about 10 per cent. The City will be looking for guidance from Hydro as to how it sees the referral taking shape.

The main question investors will ask of Scottish Power is what it intends to do with its likely cash surplus. Unlike the England and Wales companies

stake in Stockholm Energi could free up about £150m.

Most of the other regional companies can still effect buy-backs since all but two, Midlands and Northern, have yet to reach the 10 per cent limits which have been approved.

Other topics of interest will include the regional companies' non-core activities, including retailing and contracting, in which some companies are struggling to make profits.

The main focus, however, will be on dividends. Opinions differ as to how far the England and Wales companies dare go.

One theory is that with the regulatory review over and an election still probably two years away, the companies will throw off their inhibitions and pump out as much money as they can.

"The gloves are off," said Mr Nigel Hawkins, analyst at Hoare Govett, the securities house. "Conveniently the Budget on November 23 pre-dates the [main] reporting season, so aggressive dividend announcements will not add to the clamour for the government to impose a savage one-off tax on the planned disposal of the National Grid."

Mr Kevin Lapwood, at Smith New Court, disagreed. "The

Share buy backs mean that some companies could push dividend increases per share, rather than total dividend payments, past 25 per cent.

"But companies have to be sensitive about what the Tories might do to them as a result of the Grid sale. MFs are acutely aware that a spot of re-bashing could do them some good in the polls."

The English generators both report next week with PowerGen on Tuesday and National Power on Thursday. Their results are the last before the government sells its remaining 40 per cent holdings in February, so there will be more than usual interest.

Issues include the companies' diversification and their attempts to try to sell up to 6,000MW of capacity by the end of next year, as agreed with the regulator.

Northern Ireland Electricity, the last of the 17 companies to be privatised, is expected to show dividend growth of about 15 per cent. But this is the one company where dividends may have taken second place to other issues.

The main interest will centre on the effects of the IRA ceasefire. Company engineers have already been investigating the possibility of re-opening the interconnector with the Irish Republic.

ADR facility for Cluff

Cluff Resources, the minerals, oil and gas exploration group, has been granted permission to establish an American Depositary Receipt programme. The facility is being sponsored by the Bank of New York.

Each ADR is linked to the underlying value of 10 Cluff

ordinary shares and is currently being traded at about \$7.15 (435p).

Cluff's gold mining operations in Zimbabwe are expected to produce about 70,000 ounces this year with production rising to 100,000 ounces from 1995.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interim or final and the sub-sections shown below are based mainly on last year's dividends.

TODAY	Nov. 18	Nov. 19	Nov. 20	Nov. 21	Nov. 22	Nov. 23	Nov. 24	Nov. 25	Nov. 26	Nov. 27	Nov. 28	Nov. 29	Nov. 30
Interphase - Amersham Int, Cable & Wireless, Cluff Resources, ICI, British Airways, Harrogate Insurance Services, Yates Bros Wine Lodges, Pirelli, B&Q, J. P. Morgan, Scottish Value Tel, Vickers	Black Arrow, Bacterbridge, Castings, Oracle Group, Enip, International Marine, RT Capital Partners, St James's Place Capital, Standard Life Services, Sterling Inds, Wain Water, Plaxton, B&Q, C&D, Cluff, Greenpeace, Albany Group, Tomlinsons												

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BANKS

CHEMICALS

ELECTRONIC & ELECTRICAL EQPT - Cont.

EXTRACTIVE INDUSTRIES

HEALTH CARE - Cont.INVESTMENT TRUSTS - CONT.

BREWERIES

DISTRIBUTORI

Scholas	34N	283	288	162	97.2	0.8	
Siemens DM	□	224 1/4	+27 1/2	5310	2344 1/2	13,999	4.2

Eastman Gold R	188	203	7
Standard R	461½	513	300

Scientific	AN	27	
Stockard Sigs	AN	31	

French Prop. $\frac{2}{3}$

BUILDING & CONSTRUCTION

Electrocamps	244
Electron House	244

Apollo Metals	103	76	14.1	55
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Leslie R.	a	117 $\frac{1}{2}$	$\frac{1}{2}$	137	694
Lorraine R.	298 $\frac{1}{2}$	$\frac{1}{2}$	368 $\frac{1}{2}$	178 $\frac{1}{2}$

GRE _____ 1824

5	Stopped Pl	771	+1	1734
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	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100
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Director	1	
Deputy Director	1	
Manager B Mkr	1	
1 worker	1	

Meepsend	M	38	51	34	8.84	43
Meepmics	SM	54	128	53	14.0	6.0

Daniels (S) _____ 54 _____ 87 _____ 50 _____
Danone (FF) _____ 55 _____ 88 _____ 51 _____

Warrant	30
Candover	325
Other	100

Lowland	2000	1	24
M. & G. Dred Inc.	2000	1	24

4.0	80.0	14.0	
4.1	284.5	-4	
89.2			

-20797	12.8
187	- 68.7 37.1
3.2	118.1 0.1
0.9	71 4.9
14.7	- 68.5 33.2
-	74 70.4 8.4
3.8	131.5 0.4
22.2	- 82.5 11.0
-	224 3.2
3.8	126.1 1.0
1.0	1.0 3.0
6.3	115.8 4.1
6.3	152.4 4.8
-	6.3 225.7 0.4
-	88.3 18.1
3.3	815.5 0.9
-	108.2 3.4
16.8	- 386.3 8.2
-	1.6 498.7 4.3
2.4	56.8 8.5
-	1.7 558.9 2.9
3.8	170.1 0.1
4.6	124.9 10.7
-	4.7 132.8 1.4
-	102.8 6.9
2.2	121.1 5.0
-	0.8 81.9 4.7
-	4.5 318.8 -2.9
4.8	228.4 0.4
1.1	487.3 -2.8
-	187.8 26.4
16.8	- 491.6 4.1
4.320057	-7.37
4.7	368.2 16.4
3.7	185.0 11.1
0.8	198.8 7.8
3.5	112.7 8.5
4.8	118.0 10.2
-	8.0
-	126.5 45.8
1.4	194.5 1.8
-	181 17.8
-	94.4 11.8
-	286.3 1.5
0.2	-
2.5	204.8 21.4
-	108 18.5
12.8	71.2 -30.0
1.2	286.2 18.4
0.3	330.0 1.9
0.3	47.8 1.9
0.3	236.2 15.4

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TRANSPORT - Cont

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WORLD STOCK MARKETS

EUROPE									
AUSTRIA (Nov 8 / Sch)									
Index	1,210.00	+10.00	1,220.00	1,210.00	1,220.00	1,210.00	1,220.00	1,210.00	1,220.00
BELGIUM (Nov 8 / Pst)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
GERMANY (Nov 8 / Dm)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
FRANCE (Nov 8 / Frs)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
NETHERLANDS (Nov 8 / Fls)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
SPAIN (Nov 8 / Ptas)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
SWITZERLAND (Nov 8 / Frs)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
UNITED KINGDOM (Nov 8 / Stp)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
EUROPEAN STOCK EXCHANGES (Nov 8 / Pst)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
AFRICA									
SOUTH AFRICA (Nov 8 / Rand)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
MALAYSIA (Nov 8 / MYR)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
SINGAPORE (Nov 8 / S\$)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
NORTH AMERICA									
CANADA									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
UNITED STATES									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
ASIA									
HONG KONG (Nov 8 / HK\$)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
TOKYO (Nov 8 / Yen)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
SEATTLE (Nov 8 / \$)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
AUSTRALIA (Nov 8 / A\$)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
NEW ZEALAND (Nov 8 / NZ\$)									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
INDICES									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
US INDICES									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
STANDARD AND POORS 500 INDEX FUTURES \$500 times index									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
NEW YORK ACTIVE STOCKS									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00
TRADING ACTIVITY									
Index	3,400.00	+10.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00	3,400.00	3,410.00

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NASDAQ NATIONAL MARKET

4 der erste November

Stock	P/E	Yld	5 Yr	High	Low	Div	Chng	Stock	P/E	Yld	5 Yr	High	Low	Div	Chng	Stock	P/E	Yld	5 Yr	High	Low	Div	Chng
ABC Inc.	0.20	19	44	143	14	14	+	Dallcom	24.4	9	57	1807	74	22	+	Qual Com	0.62	72	70	192	16	18	+
ABC Corp.	0.12	13	540	173	177	17	+	Delta	49	91	49	44	44	44	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.20	23	243	17	105	107	+	Delta	0.20	27	1323	313	304	31	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+	Qual Comm	0.16	54	214	214	214	21	+
ABC Corp.	0.15	115	104	17	17	17	+	Delta	0.15	115	104	17	17	17	+								

Hardness A	68	10	7 1/2	7 1/2	7 1/2	+1 1/4
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